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To: Senator Tony Rand, Co-chair, Committee on Employee Hospital and Medical Benefits  
Representative Hugh Holliman, Co-chair, Committee on Employee Hospital and Medical Benefits

From: Dempsey Benton, <sup>DSB</sup>Secretary Department of Health and Human and Services and  
<sup>KCS</sup>George C. Stokes, Executive Administrator of the North Carolina State Health Plan

Subject: Final Joint Report on Administration of the NC Health Choice Program for Children

The final joint report of the Department of Health and Human Services, Division of Medical Assistance and the North Carolina State Health Plan on administration of the NC Health Choice for Children program is attached. This report provides additional information and details on the recommendations submitted by the joint agency work group in February to ensure a smooth and effective transition of program administration in light of the phase-out of the indemnity plan.

It is our pleasure to present the final report at this time. If you have any questions or would like to discuss in more detail, please feel free to call.



**FINAL REPORT**  
**STATE CHILDREN'S HEALTH INSURANCE PROGRAM ADMINISTRATION**  
**(NC HEALTH CHOICE PROGRAM FOR CHILDREN)**

**Joint Report of the**  
**Department of Health and Human Services, Division of Medical Assistance**  
**and the**  
**North Carolina State Health Plan**

**to the**  
**North Carolina General Assembly**  
**Legislative Committee on Employee Hospital and Medical Benefits**

**MAY 2008**

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## **Executive Summary**

During the 2007 Regular Session, the General Assembly enacted legislation to study administration of the NC Health Choice program to ensure a smooth and effective transition in light of the phase out and replacement of the Teachers' and State Employees' Comprehensive Major Medical (CMM) Plan (i.e. the indemnity plan) with a preferred provider organization (PPO) effective July 1, 2008. The legislation was enacted to help ensure NC Health Choice, which is benchmarked to the CMM by state law (i.e. Health Choice coverage is required to be substantially equal to coverage provided to dependents of teachers and state employees), does not experience a disruption in access to care, quality of medical care services, or claims processing as a result of the phase out of the indemnity plan offered to State Health Plan members.

The NC State Health Plan (SHP) and Department of Health and Human Services (DHHS) submitted a joint report containing initial findings and recommendations in February 2008. The agencies recommended DHHS assume full administrative oversight of NC Health Choice after a sufficient transition period, that the status quo be maintained with respect to benefits coverage in the short term, that Blue Cross Blue Shield of NC (BCBSNC) continue to serve as the third party administrator in the short term, and that BCBSNC transition claims processing activities to an updated operating system by January 1, 2009.

Because a number of issues required further study and the estimated costs of implementing various alternatives for transitioning program administration were unavailable at that time, the joint work group is submitting this follow up report outlining additional considerations, findings and final recommendations:

- The primary focus of the joint work group, as envisioned and required by the legislation, is on the short term aspects of ensuring a smooth and effective transition of NC Health Choice administration.
- The transition process is more complex than assigning statutory authority to the Secretary of DHHS and will require an adequate transition period. A project manager should be hired to manage the transition from SHP to the Division of Medical Assistance (DMA) and lead a transition team composed of personnel from both agencies.
- The transition of administrative responsibilities for NC Health choice from SHP to DMA should be completed no later than July 1, 2010 and will be contingent upon complete and accurate documentation of current business rules and applications logic by SHP and BCBSNC to support effective knowledge transfer.

- The cost to transition claims processing from the BCBSNC legacy platform to Power MHS is estimated to be between \$5 million and \$7 million. (Please note these costs apply solely to the transition to a new claims processing platform operated by BCBSNC and are unrelated to the transition of administrative oversight from SHP to DMA). The General Assembly should appropriate the state share of this cost as well as funds to hire a project manager to oversee the administrative transition from SHP to DMA, support other expenses associated with the short term transition, and develop a long term transition plan in the 2008 Regular Session.
- A number of statutory changes will be required to secure the efficient delivery of the current comprehensive benefit package for NC Health Choice, including maintenance of the indemnity plan as the underlying benefits coverage for NC Health Choice and the authority to transition administration and claims processing to DHHS.
- A significant component of the administrative transition is ensuring the Secretary has adequate authority to effectively manage the short and long term transitions in a cost efficient manner. The Secretary should be given authority similar to that provided to the Executive Administrator of the NC State Health Plan.
- The \$5 million lifetime maximum benefit limit applicable to the indemnity plan should not apply to the NC Health Choice program.
- There are program efficiencies and cost savings to be realized in the long term by modifying the claims processing operations; however a determination of whether it is more prudent to transition NC Health Choice claims processing to the replacement Medicaid Management Information System (MMIS) or to seek a new vendor is needed. The Department of Health and Human Services needs sufficient time and authority to explore the alternatives and choose a path for long term administration.

## **Background**

The State Children's Health Insurance Program (SCHIP), known as "North Carolina Health Choice for Children," is a state and federally funded program that provides children in families whose incomes exceed the Medicaid eligibility level with access to comprehensive health care coverage with little or no cost sharing required. Enrolled children receive similar coverage as provided to children of state employees and teachers, with the addition of vision, hearing, dental and special needs coverage as required by state law. Federal funding is obtained under Title XXI of the Social Security Act, and State General Fund appropriations are used to satisfy the federal matching requirements.

North Carolina SCHIP, in accordance with North Carolina General Statutes, is administered through a partnership of the Department of Health and Human Services (DHHS), Division of Medical Assistance (DMA) and the North Carolina State Health Plan (SHP). DMA makes premium payments to SHP to cover administration, claims processing and other costs incurred to provide coverage for SCHIP children. SHP disburses funds to Blue Cross and Blue Shield of North Carolina (BCBSNC), the third party administrator (TPA) under contract to process and pay SCHIP (hereinafter referred to as NC Health Choice or NCHC) medical claims.

During the 2007 Regular Session, the General Assembly enacted legislation to study administration of the NC Health Choice program to ensure a smooth and effective transition in light of the phase out and replacement of the Teachers' and State Employees' Comprehensive Major Medical (CMM) Plan (i.e. the indemnity plan) with a preferred provider organization (PPO) effective July 1, 2008. The legislation was enacted to help ensure NC Health Choice, which is benchmarked to the CMM by state law (i.e. Health Choice coverage is required to be substantially equal to coverage provided to dependents of teachers and state employees), does not experience a disruption in access to care, quality of medical care services, or claims processing as a result of the phase out of the indemnity plan offered to State Health Plan members.

The General Assembly directed the NC State Health Plan and the Department of Health and Human Services, Division of Medical Assistance to submit a report to the Committee on Employee Hospital and Medical Benefits, with recommendations on statutory or other changes necessary to ensure effective administration of NC Health Choice. To adhere to the requirements of the legislation, the agencies formed a joint work group to study and evaluate various issues regarding the administration of NC Health Choice. The joint work group submitted its initial findings and recommendations in February 2008. However, because a number of issues required further study and the estimated costs of implementing various alternatives for transitioning program administration were unavailable at that time, the joint work group is submitting its final findings and recommendations in this follow up report to the General Assembly.

## **Summary of Recommendations from Initial Report**

As outlined in the February 2008 report, the joint work group makes the following recommendations:

1. The Department of Health and Human Services, Division of Medical Assistance should assume full oversight of the NC Health Choice program after a sufficient period of knowledge transfer between the Division of Medical Assistance and the NC State Health Plan.
2. The Secretary of the Department of Health and Human Services should be given the necessary statutory powers, duties and authority to administer the NC Health Choice program as well as oversee and direct the transition in a manner that is in the best interest of covered children and the taxpayers.
3. The NC Health Choice benefits and coverage policies should continue to follow those currently offered in the CMM (i.e. indemnity plan) in the short term. The additional benefits specified in GS 108A-70.21(b) and GS 108A-70.23 should also be maintained. The additional benefits referenced in Chapter 108A include dental and vision benefits as well as some services for children with special needs that are not available to State Health Plan members.
4. BCBSNC should continue to serve as the third party administrator for NC Health Choice in the short term and transition NCHC claims processing activities from the BCBSNC legacy platform to the BCBSNC Power MHS operating system by January 1, 2009.
5. The Department of Health and Human Services, Division of Medical Assistance should submit any required amendments to the State Child Health Plan (i.e. the agreement with the federal Centers for Medicare and Medicaid Services governing North Carolina's State Children's Health Insurance Program) to implement the recommendations of this report.
6. The Department of Health and Human Services, Division of Medical Assistance and the NC State Health plan should seek revisions to the NC General Statutes as necessary to maintain the NC Health Choice benefit package as currently offered under the SHP indemnity plan and ensure a smooth and effective transition of administrative oversight from SHP to DMA.

7. The joint work group should continue to consider and evaluate alternatives to ensure operation of the most cost effective program on a long term basis; including identifying a third party administrator and restructuring the benefits design for NC Health Choice to incorporate coverage policies and administrative procedures similar to those used for the Medicaid program.

*(Please note the section on Long Term Transition [see page 14] outlines additional considerations, findings and recommendations of the joint work group related to long term program efficiency. However, the submission of this report concludes the efforts of the joint work group with respect to the long term transition. DHHS and DMA will assume oversight and responsibility for both the short term and long term transitions, and expects continued and frequent consultation with SHP to occur via a project manager hired to oversee the administrative transition from SHP to DMA).*

### **Short Term Transition**

The primary focus of the joint work group, as envisioned and required by the legislation, is on the short term aspects of ensuring a smooth and effective transition of NC Health Choice administration. This is particularly important given the following factors:

- The CMM/indemnity plan (i.e. the NC Health Choice coverage benchmark) will cease to exist on July 1, 2008.
- Legislative action is required to change the current administrative structure for NC Health Choice, because the NC State Health Plan is responsible for program administration and claims processing under state law.
- BCBSNC is under a legal requirement to transition claims processing activities from its legacy platform by January 2009, and continued processing of NCHC claims on the BCBSNC legacy platform beyond year-end is cost prohibitive.
- DHHS does not currently have the legal authority to establish and engage in an alternative administrative arrangement.
- There is insufficient time to issue a request for proposal (RFP), award a contract, and complete design, development and implementation of a new claims processing system or TPA contract by January 2009.

As outlined in the initial report, these factors specifically led the joint work group to recommend that BCBSNC continue to serve as the third party administrator for NC Health Choice in the short term and transition NCHC claims processing activities from the BCBSNC legacy platform to the BCBSNC Power MHS operating system by January 1, 2009. No other viable short term alternatives were identified by the group.

With this overarching recommendation and related factors in mind, the joint work group has continued to meet since the submission of the preliminary recommendations in February to discuss various systems, operational and legal issues associated with transitioning administrative oversight for NCHC from SHP to DMA. Specifically, these discussions have focused on the following, which are covered in more detail in the remainder of this report:

- Timing of the transition and resource needs
- Transition costs
- Systems and operational issues
- Statutory authority, revisions and related legal issues

### **Timing, Planning and Resource Needs**

Although the joint work group recommends that the Department of Health and Human Services assume full administrative responsibility for NC Health Choice, the process is much more complex than merely assigning statutory authority to the Secretary and will require an adequate transition period. The transition of administrative responsibilities for NC Health Choice from SHP to DMA should be completed no later than July 1, 2010, the date the current contract, including extension options, between SHP and BCBSNC expires, and will be contingent upon complete and accurate documentation of current business rules and applications logic by SHP and BCBSNC to support effective knowledge transfer. The current expectation is that general administrative and contract management activities performed by SHP may be transitioned in phases to DHHS. To accomplish this, a transition team will need to be assembled and a project manager hired to ensure an effective period of knowledge transfer between DMA and SHP. Although the Secretary of DHHS should have responsibility and authority to determine the timing and manner of the transition, the effort will require input by both DMA and SHP and will require statutory changes.

There are currently no SHP employees dedicated solely to the NC Health Choice program; however, several departments support key elements of the administrative processes. These elements and functions need to be clearly defined and documented specifically as they relate to NC Health Choice, and seamlessly transitioned to the Department of Health and Human Services, Division of Medical Assistance. These functions include, but are not limited to:

- SHP Financial Services
- SHP Pharmacy Benefit Services
- Customer Relations Services

*(For additional information or a more detailed description of related services and activities, see the February 2008 Joint Report and MAXIMUS Claims Processing Analysis in the appendix)*

In addition to the above functions, as administrative contracts are modified or phased out, there will be activities associated with vendor transitions in which the NC State Health Plan will need to actively participate.

During the transition period, it is essential that a project manager be hired to manage the transition from SHP to DMA and lead a transition team composed of appropriate personnel from both agencies. Although it is anticipated that the project manager will be the primary representative for SHP, the project manager will report to DHHS and will be responsible for ensuring and coordinating interaction and communication with other SHP personnel as necessary. DMA expects broad representation on the transition team will be necessary to ensure a comprehensive and complete knowledge transfer prior to completing the transition of administrative and contract management activities. Duties of the project manager will include, but not be limited to:

- Developing a short term transition plan that considers all aspects of the administrative and claims processing activities of NC Health Choice
- Overseeing transition management and approach in consultation with both DMA and SHP and under the direction of the Secretary of the Department of Health and Human Services
- Overseeing implementation of the associated project plan for transitioning NCHC claims processing from the BCBSNC legacy system to the Power MHS operating platform by January 2009
- Overseeing transition of related contractual amendments
- Coordinating with all agencies, entities and organizations associated with the short term transition process
- Coordinating and ensuring adequate training for DHHS and DMA personnel
- Submitting progress reports to the Secretary of DHHS, Executive Administrator of SHP and Director of DMA
- Scheduling, convening and facilitating project meetings
- Responding to information requests
- Completing other tasks as necessary or assigned by the Secretary

### **Transition Costs**

The cost to transition NC Health Choice claims processing from the BCBSNC legacy platform to Power MHS is estimated to be between \$5 million and \$7 million. Please note these costs apply solely to the transition to a new claims processing platform operated by BCBSNC and are unrelated to the transition of administrative oversight from SHP to DMA.

The specific costs are outlined in the following table. At this time, BCBSNC does not expect a significant change in operating costs relative to this transition.

|  | Estimated Transition Costs |                    |                    |
|--|----------------------------|--------------------|--------------------|
| Description  | Low Estimate               | Medium Estimate    | High Estimate      |
| Internal Business<br>Employees: Business Analyst, Tech. Writers, Configuration Analysts, Business Process Architect, User Acceptance Testers, etc. | \$802,940                  | \$1,002,940        | \$1,202,940        |
| External Business<br>Contractors: Project Manager, Requirements Analysts, Business Analyst, Technical Writers, etc.                                | \$1,783,146                | \$2,233,146        | \$2,683,146        |
| Internal Information Systems<br>Employees: Project Manager, Programmers, Quality Assurance Testers, etc.   | \$1,070,681                | \$1,320,681        | \$1,570,681        |
| External Information Systems<br>Contractors: Programmers, Quality Assurance Testers, etc.  | \$343,233                  | \$443,233          | \$543,233          |
| Contingency  | \$500,000                  | \$500,000          | \$500,000          |
| Capital  | \$500,000                  | \$500,000          | \$500,000          |
| <b>Totals</b>  | <b>\$5,000,000</b>         | <b>\$6,000,000</b> | <b>\$7,000,000</b> |

### **Systems and Operational Issues**

In recent weeks, a number of meetings involving DMA, SHP and BCBSNC have been devoted to discussing and evaluating various systems and operational issues related to the current processing of NC Health Choice claims. The purpose is to identify areas where improvements can be made in transitioning from the BCBSNC legacy system to the Power MHS platform. Specific areas of discussion included provider reimbursement rates, covered benefits and cost sharing, and systems interface with DMA's eligibility information system.

Additional discussions with BCBSNC and the pharmacy services vendor, Medco Health Solutions, regarding medical policy development, processing of pharmacy claims, and transitioning contractual oversight and monitoring activities will take place in the next few weeks. (Please note, SHP maintains the contract with Medco for NC Health Choice pharmacy services.)

## **Provider Reimbursement Rates**

G.S. 108A-70.21(b1) requires services to be reimbursed at rates equivalent to the Medicaid rates. Prior to this legislation, NC Health Choice providers were paid SHP indemnity plan rates. The BCBSNC claims processing system was not designed to accommodate the Medicaid rate schedule. As such, institutional providers are paid a rate that approximates Medicaid rates when providing services to NC Health Choice enrollees. DMA is interested in mitigating this issue if possible. However, the BCBSNC Power MHS is a commercial claims processing platform and like its predecessor, is not designed to accommodate the Medicaid rate schedule. Although approximating Medicaid rates for institutional providers is an acceptable approach, each time Medicaid rates change, an actuary must develop an updated pricing schedule for BCBSNC to ensure the effective rate is an accurate approximation.

BCBSNC also expressed interest in resolving administrative challenges attributable to the Medicaid reimbursement schedule. In its commercial business, rate changes are typically effective on a prospective basis. As such, BCBSNC has limited need to make retroactive adjustments to claims to reflect changes in reimbursement rates. Medicaid pricing is significantly more complex and retroactive adjustments are quite common. When rate changes are initiated, previously processed and paid claims require adjustment to reflect the revised rate. Due to system limitations, many of these adjustments must be processed manually. BCBSNC does not presently offer a more efficient method of processing retroactive adjustments in the Power MHS platform. The joint work group discussed alternatives such as making all rate adjustments effective on a prospective basis only or attempting to aggregate adjustments rather than implementing at the individual claims level; however, none of these approaches are optimal. Discussions will continue with DMA, SHP and BCBSNC to identify opportunities for improved efficiency.

Despite the joint work group's inability to identify an improved approach for dealing with these problems, these discussions helped shed light on at least one factor contributing to higher claims processing costs associated with NC Health Choice. It also reinforces the joint work group's recommendation to seek a more cost effective means of processing NC Health Choice claims in the long run.

## **Covered Benefits and Cost Sharing**

The primary purpose of discussing covered benefits and cost sharing with BCBSNC was to determine the degree of flexibility in the Power MHS platform to accommodate changes. DMA wants to ensure the new system can handle modifications to the coverage policies or cost sharing requirements. This is particularly important given the potential expansion of health care coverage to include children with family incomes above 200% of the federal poverty level. As noted previously, NC Health Choice currently covers children up to 200% of the poverty level. The expansion program under

consideration is anticipated increase enrollment by 12.5% or 15,000 children initially and will require increased cost sharing provisions relative to the current program. Unlike the Medicaid claims processing system, BCBSNC can easily implement premiums, additional copayments, deductibles and coinsurance as well as new benefits limitations or exceptions if necessary.

### **Systems Interface with EIS**

DMA has also been pursuing improvements in the interface between BCBSNC and the eligibility information system (EIS). At the inception of the NC Health Choice program, BCBSNC was directed to set up an eligibility period of twelve months for each child. Over time, it became clear that not all children maintain eligibility for twelve months, and that there was a need to accommodate periods less than twelve months. Making changes to accommodate shorter periods has been challenging.

Currently enrollee identification (ID) cards cannot be issued for a period of less than twelve months. Since providers cannot rely on the ID cards, they must either verify eligibility independently or risk providing services to ineligible children. BCBSNC operates a system known as “Blue E” that provides access to up-to-date eligibility information. Medicaid and NCHC providers typically use Blue E in conjunction with ID cards when checking eligibility; however, in smaller practices, “Blue E” may not be available, and ID cards alone may be used to determine eligibility. In addition it may take several billing cycles to properly reflect shortened eligibility periods or process multiple eligibility actions affecting the same child.

It appears most of DMA’s concerns can be addressed in the Power MHS system. This should lead to some improvements in operational efficiency. However, BCBSNC and DMA still need to determine if the Power MHS solution to these issues will affect the ability to comply with federal cost sharing maximums, which requires the tracking of aggregate cost sharing by family. If aggregate annual cost sharing cannot be properly tracked, then a suitable work around will need to be identified or the inefficiencies related to processing EIS actions will likely be replicated in the Power MHS.

Regardless of the approach adopted for dealing with eligibility periods less than twelve months, aggregate cost sharing by family will not be calculated in “real time” when claims processing is transitioned to Power MHS on January 1, 2009. Rather reports will be generated to calculate and monitor aggregate cost sharing by family to ensure families meeting the maximum are moved to the “no copayment plan.” To date, only one family has reached the cost-sharing limit; however, the expansion program under consideration will require increased cost sharing provisions relative to the current program, and the number of families reaching the federal maximum cost sharing limit will increase. In that case, a fully automated approach would be more cost effective. In

addition, to meet reporting requirements, accumulation toward the maximum will need to be tracked.

## **Statutory Authority and Recommended Revisions**

### **Required Statutory Changes**

To implement the recommendations of the joint work group, a number of statutory changes will be required. These will include various technical and conforming changes to (1) continue to use the CMM/indemnity plan and associated medical and utilization management policies as the underlying coverage design for NC Health Choice and (2) transition administrative and claims processing authority to the Department of Health and Human Services.

Changes to Part 8 of Article 2 of Chapter 108A of the General Statutes as well as Parts 2, 3 and 5 of Article 3 of Chapter 135 of the General Statutes are anticipated. Chapter 108A is the Health Insurance Program for Children (i.e. NC Health Choice), and Chapter 135 governs the responsibilities of the NC State Health Plan and its vendors as administrator of NC Health Choice and also sets out the provisions of the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan.

Representatives of both DMA and SHP have been meeting to identify relevant sections of the statute that will need modification, repeal or relocation. Although the recommended changes are not finalized for inclusion in this follow up report, both SHP and DMA will be prepared to work with legislative staff when the session convenes in May to prepare the legislation. In addition, DMA anticipates submitting its initial draft of statutory changes for inclusion in the Governor's recommended budget.

### **Secretarial Powers and Duties**

A major and important component of the administrative transition and related statutory changes is ensuring adequate expansion of the Secretary's authority. Specifically, the Secretary of the Department of Health and Human Services should be given full responsibility for administration of NC Health Choice, including the necessary statutory powers, duties and authority to carry out this responsibility in the same manner as required of the Executive Administrator of the NC State Health Plan since the program's inception in 1998. In the short term, this authority should be delegated to the NC State Health Plan to continue to carry out the duties and responsibilities currently required of them until such time as the Secretary of DHHS declares the administrative transition complete. However, as recommended previously, the Division of Medical Assistance should take over full administrative oversight of the program no later than July 1, 2010.

The Secretary should further be directed to make the necessary decisions applicable to the NC Health Choice program that are in the best interest of the children and the taxpayers, including:

- Determining the steps and timeline for the implementation of the short term administrative transition from SHP to DMA
- Implementing the most cost effective long term solution for administering the NC Health Choice program and claims processing activities

### **Recommended Benefit Improvements**

Maintaining the current benefits and coverage design for NC Health Choice (i.e. the indemnity plan plus other statutorily specified benefits) is recommended as the best short term strategy, since any changes to the coverage policy will require modifications to the claims processing system, and modifying the BCBSNC legacy system is not cost effective in light of the phase out of its use. However, the joint work group recognizes that tying NC Health Choice to the indemnity plan as it exists on June 30, 2008 may unintentionally hamper efforts to keep the coverage policy updated.

Historically the SHP has monitored coverage policies and member utilization and made recommendations as appropriate to modify the benefit structure of the indemnity plan. With the replacement of the indemnity plan with PPO offerings for teachers and state employees, the SHP will focus on coverage policies related to the PPOs rather than the indemnity plan. As part of the transition, DMA will need to ensure NC Health Choice coverage policy is appropriate for the targeted low-income population and that benefits are administered in the most cost effective and efficient manner. DMA is already considering ways to improve upon the current benefit package in the short term and has engaged in discussions with SHP and BCBSNC to determine the feasibility of implementing such changes.

For example, benefits under the indemnity plan are subject to a \$5 million lifetime maximum as required by statute. Under the PPO offerings, teacher and state employees will no longer be subject to this lifetime maximum. However, the lifetime maximum benefit limit will continue to apply to NC Health Choice recipients, because the underlying coverage policy will continue to follow the indemnity plan. Given the income eligibility requirements, NC Health Choice enrollees are particularly vulnerable to this limitation and risk losing access to critical health care services if benefit payments reach the lifetime maximum. From an actuarial stand point, the lifetime maximum saves little in terms of the cost per member per month, and more and more plans are moving away from lifetime dollar maximums. As a result, the joint work group recommends removal of the lifetime benefit limitation. BCBSNC expects to be able to implement this change in their legacy platform.

The Division of Medical Assistance is also considering cost effective benefit improvements related to coverage of over the counter (OTC) medications and certain dental procedures. The proposed effective date for these changes will occur sometime after January 1, 2009 to ensure an effective transition to the BCBSNC Power MHS claims processing system prior to modifying any coverage policies. Additional details and statutory changes associated with these benefit improvements will be included with the submission of technical and conforming changes upon approval of the Secretary and Office of the Governor.

### **Long Term Transition**

As the legislation and circumstances required, the joint work group focused its efforts on short term needs relative to administration of NC Health Choice, but given the findings of two independent cost analyses and other considerations outlined in the initial report, the joint work group believes there are program efficiencies and cost savings to be realized in the long term by modifying the claims processing operations, benefits and coverage policies to more closely follow the Medicaid program.

When the NC Health Choice program was created a decade ago, benchmarking coverage to the state employees' health plan and assigning responsibility for administration and claims processing to the State Health Plan allowed for timely implementation and eliminated the need for DMA to establish a duplicate claims processing system. As noted in the February report, many of the initial advantages no longer apply to the program as it exists today. Over time the program requirements for NC Health Choice have changed relative to the benchmark indemnity plan (e.g. providers are reimbursed at the Medicaid rate and children are enrolled in Community Care of NC). These changes required modifications to the claims processing system applicable only to NC Health Choice enrollees, eroding many of the efficiencies inherent in using a benchmark plan and its claims processing administrator. This trend is expected to continue in spite of the transition from the BCBSNC legacy system to the updated Power MHS platform. Modifying a commercial payment system that was not designed to handle the complexities of the SCHIP or Medicaid programs is not an optimal long term solution for NC Health Choice.

An effective long term transition of administrative responsibilities under the Division of Medical Assistance is expected to require restructuring of the benefits and coverage design for NC Health Choice to incorporate coverage policies and administrative procedures similar to those used to administer the Medicaid program. This will facilitate the transition of the claims processing operations and avoid the need for duplicative program and administrative staff within DMA to oversee both Medicaid and NC Health Choice. However, these changes alone will not improve the cost

effectiveness of administrative operations. A more suitable claims processing system must be identified.

Given these findings the Division of Medical Assistance, under the direction of the Secretary, should consider and evaluate alternatives to ensure operation of the most cost effective program on a long term basis. Specifically, a determination of whether it is more prudent to transition NC Health Choice claims processing to the Medicaid Management Information System (MMIS) or to initiate an RFP to seek a new vendor is needed.

MMIS is the current system utilized to administer the Medicaid program. Bids are currently being considered to replace the multi-payer system. The expectation is that processing of Medicaid, Public Health and Mental Health claims under the new system will begin in late 2010. There may be efficiencies to administering NCHC claims through the MMIS replacement system, but there may be compelling reasons for maintaining NC Health Choice in an independent environment, and it can likely be implemented earlier under this alternative. However, there is not enough information at this time to make an informed recommendation.

The Secretary should develop a plan for the long term transition and provide a progress report to the General Assembly by May of 2009. The following factors should be considered in identifying and evaluating alternatives for a long term claims processing solution:

- The ability of the state and the amount of time required to realize a return on its investment in the BCBSNC Power MHS system (i.e. the costs to move NCHC claims processing from legacy to MHS)
- The operational efficiency of the BCBSNC Power MHS system as an interim solution
- The amount of time, transition and operating costs required to select a new vendor and develop, design and implement an independent claims processing system for NC Health Choice
- Likely operational issues and additional costs associated with ensuring “compatibility” of an independent claims processing system with the MMIS replacement system
- The amount of time, transition and operating costs required to modify and enhance the core MMIS replacement system to process NC Health Choice claims
- The impact of decisions related to the benefit structure and coverage policies, including the ability to implement future program changes
- Any other factors or issues related to ensuring long term cost effectiveness and operating efficiency of claims processing and other administrative activities for NC Health Choice

## **Next Steps**

### **Joint Work Group**

The joint work group will continue its collaboration to develop a plan for addressing all issues related to ensuring the successful transition of administrative oversight of NC Health Choice from SHP to DMA as follows:

- The Department of Health and Human Services and NC State Health Plan will submit information to the General Assembly and its staff related to their respective statutory changes.
- The Division of Medical Assistance will seek written guidance from the Centers for Medicare and Medicaid Services (CMS) on whether an amendment to the State Child Health Plan is required to implement the recommendations of the joint work group.
- The Division of Medical Assistance will prepare and submit to CMS any required State Child Health Plan amendments to become effective July 1, 2008.
- The Department of Health and Human Services will submit an expansion budget request to cover related transition costs to the Office of the Governor for consideration in the 2008 Regular Session.
- The State Health Plan and Division of Medical Assistance will appoint a joint agency transition team and hire a project manager.
- The Department of Health and Human Services will consider and evaluate alternatives to ensure cost effective operation of the program on a long term basis, including identifying another third party administrator and restructuring the benefits design for NC Health Choice to incorporate coverage policies and administrative procedures similar to those used for the Medicaid program.

### **Legislative Action Required**

To ensure the successful transition of NC Health Choice administration and claims processing functions, the NC General Assembly needs to take the following legislative actions:

- Provide the Secretary of the Department of Health and Human Services with the necessary statutory powers, duties and authority to administer the NC Health Choice program and claims processing functions in the same manner as currently required of the Executive Administrator of the NC State Health Plan
- Delegate the administrative and claims processing authority for NC Health Choice, under the oversight of the Secretary of DHHS, to the NC State Health Plan to continue to carry out their current duties and responsibilities

until such time as the Secretary declares the administrative transition complete, but not later than July 1, 2010

- Direct the Secretary to determine the steps and timeline for the implementation of the short term administrative transition from SHP to DMA as well as the claims processing function from the BCBSNC legacy platform to the Power MHS system and ensure an effective implementation
- Appropriate state matching funds to cover the cost of transitioning claims processing from the BCBSNC legacy platform to the Power MHS system
- Appropriate funds to DHHS to hire a project manager to oversee the administrative transition from SHP to DMA, support other expenses related to the short term transition and develop a long term transition plan
- Repeal the designation of the State Health Plan for Teachers and State Employees (i.e. the PPOs) as the underlying benefit coverage policy for NC Health Choice
- Maintain the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan in effect on June 30, 2008 as the underlying benefit coverage policy for NC Health Choice
- Direct the Secretary of DHHS to identify the most cost effective long term solution for administering the NC Health Choice program and claims processing activities.
- Enact the necessary technical and conforming changes in either Chapter 108A or Chapter 135 of the General Statutes