



North Carolina Department of Public Safety

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Roy Cooper, Governor

Erik A. Hooks, Secretary

MEMORANDUM

TO: Members of the Joint Legislative Oversight Committee on Justice and Public Safety
Chairs of the House Appropriations Committee on Justice and Public Safety
Chairs of the Senate Appropriations Committee on Justice and Public Safety

FROM: Erik A. Hooks, Secretary *EAH*
Douglas Holbrook, Chief Financial Officer *dsh*

RE: Alternative Methods for Reimbursing Providers of Medical Services to Inmates

DATE: February 13, 2019

Pursuant to Session Law 2019-135, Section 2.(b), the Department of Public Safety shall report to the Joint Legislative Oversight Committee on Justice and Public Safety and to the chairs of the House of Representatives and Senate Appropriations Committees on Justice and Public Safety on alternative methods for reimbursing providers and facilities that provide approved medical services to inmates, including Medicare rates.

Please see the attached report.

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Since 2008, the Department of Correction or, subsequent to the agency merger in 2011, the Department of Public Safety has followed a model of hospital reimbursement based on language enacted in the annual appropriations bill. This model provided two options: two times the current Medicaid rate or seventy percent of the hospital's billed charge. The legislation was broadened over the years to permit payment of a higher rate when greater overall savings could be guaranteed or when the higher rate was necessary to guarantee ongoing access to healthcare.

The Department has operated under this formula in all hospital contracts through 2018. In 2019, the Department renegotiated its contract with UNC Healthcare to reimburse based on the Medicare rate schedule instead of Medicaid as a trial (240% of Medicare). The Department and the provider saw benefits to using a Medicare rate structure. Foremost, the rate is not proprietary and standard nationally. North Carolina's Medicaid transformation changes the nature of the statewide rate structure and makes payments less standardized. Additionally, any healthcare provider is equipped to bill for a Medicare rate, and Medicare offers several standard practices of audits and discounts. This new Medicare model for UNC Hospitals went into effect on January 1, 2019.

Inmate hospital claims are paid by the Department's third-party vendor PGBA. The Department asked PGBA to analyze this cost structure by applying this rate to a sample of payments from 2018 and estimated a cost savings of over \$900,000 per month.

PGBA provided the following month-by-month comparison of actual spending at UNC network hospitals for the last two years. It is important to note that inmate medical spending in any one month can be skewed by the presence of one particularly ill inmate who requires extraordinary treatment.

	2018	2019	Difference
January	\$2,486,016.55	\$1,937,864.36	\$548,152.19
February	\$2,449,697.25	\$849,761.00	\$1,599,936.25
March	\$3,013,957.73	\$1,127,084.18	\$1,886,873.55
April	\$2,643,277.54	\$4,372,654.83	(\$1,729,377.29)
May	\$2,960,760.73	\$1,882,168.77	\$1,078,591.96
June	\$2,434,721.15	\$1,831,065.77	\$603,655.38
July	\$1,697,289.52	\$6,693,458.31	(\$4,996,168.79)
August	\$4,094,642.86	\$3,141,763.95	\$952,878.91
September	\$1,535,829.52	\$1,824,928.13	(\$289,098.61)
October	\$3,707,128.84	\$2,227,026.36	\$1,480,102.48
November	\$2,632,377.89	\$1,743,778.70	\$888,599.19
December	\$1,958,299.16	\$1,505,105.19	\$453,193.97
	\$31,613,998.74	\$29,136,659.55	\$2,477,339.19

This chart shows an overall reduction of \$2.47 million for 2019. The Department followed up with PGBA to find out why July 2019 was so much higher than any other month. According to their research, UNC Healthcare had limited the number of invoices submitted during the early part of the year to see how the new billing system worked and caught up their invoicing in July.

Comparisons for the months after July 2019 should be reflective of ongoing savings. The Department's experience with using a Medicare-based reimbursement structure has been favorable, and will guide future negotiations with other hospital network providers.