



**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

# **Medicaid Transformation**

**Joint House and Senate Appropriations  
Committees on Health and Human Services**

**February 28, 2019**

# Overview

- What is transformation?
- Goals
- Structure and timeline
- Capitation rates
- Summary



# Transformation of Delivery System

- Current system:
  - Fee-for-service (physical health): providers are reimbursed by Medicaid for each service provided to beneficiaries
    - Program is administered at the State level
  - Managed care for behavioral health: 7 regional LME/MCOs (local management entities/managed care organizations)
    - LME/MCOs are local government agencies
    - LME/MCOs are paid per-person rates (“capitated rates”) to coordinate and pay for care
- Transformed system:
  - Prepaid Health Plans (PHPs) will be paid capitated rates to coordinate and pay for integrated physical and behavioral health for beneficiaries



# Intent of Medicaid Transformation

- S.L. 2015-245, Section I
  - “... *provide budget predictability for the taxpayers of this State while ensuring quality care to those in need.*”
- Legislative goals from S.L. 2015-245:
  - *Ensure budget predictability through shared risk and accountability.*
  - *Ensure balanced quality, patient satisfaction, and financial measures.*
  - *Ensure efficient and cost-effective administrative systems and structures.*
  - *Ensure a sustainable delivery system.*



# Role of the General Assembly

- S.L. 2015-245, Section 2
  - Define the goals of transformation and the structure of the delivery system
  - Monitor plans for transformation and implementation of transformation
  - Define eligibility for the programs, including which Medicaid populations will be covered by Prepaid Health Plans (PHPs)
  - Appropriate funds for Medicaid and NC Health Choice
  - Confirm the Director of the Division of Health Benefits (section establishing the Director takes effect Jan 1, 2021)



# Structure of Managed Care

## Types of PHPs:

1. Commercial Plans (CPs) – includes for-profit or non-profit commercial insurers
  2. Provider-Led Entities (PLEs) – A majority of the entity's governing board must be made up of physicians, physician assistants, nurse practitioners, and psychologists who have experience treating NC Medicaid beneficiaries
- CPs and PLEs must be licensed by the Department of Insurance
  - 4 statewide PHP contracts required (CPs or PLEs)
  - Up to 12 regional contracts (PLEs only)
  - CPs and PLEs will initially manage only *Standard Benefit Plans*



# Standard Benefit Plan Populations

- Who will be in PHP Standard Benefit Plans?
  - Approximately 1.6 million of the 2.2 Medicaid and NC Health Choice beneficiaries
- Major Medicaid populations *not* in Standard Plans
  - Family planning
  - Dual eligible for whom coverage is limited to Medicare costs
  - Incarcerated
  - In specified Medicaid programs:
    - Community Alternatives Programs
    - Program of All-Inclusive Care for the Elderly (PACE)
  - Eligible for BH IDD Tailored Plans
    - Serious mental illness
    - Serious emotional disturbance
    - Serious substance use disorder
    - Intellectually and developmentally disabled
    - Traumatic brain injury



# BH IDD Tailored Plans (S.L. 2018-48)

- BH IDD Tailored Plans will provide physical and behavioral healthcare for Medicaid beneficiaries with:
  - Serious mental illnesses,
  - Serious emotional disturbances,
  - Severe substance use disorders,
  - Intellectual or developmental disabilities, and
  - Traumatic brain injuries.
- For the first 4 years of Tailored Plans, 5 to 7 regional LME/MCOs will be contracted to operate the plans
- LME/MCOs must contract with a PHP that covers services under the Standard Benefit Plan
- After initial 4 years, Tailored Plan contracts will be subject to RFP





# Timeline – Major Events

| Date          | Event   |
|---------------|---|
| June 2016     | NC DHHS submitted initial 1115 Waiver request to federal Centers for Medicare and Medicaid Services (CMS) |
| November 2017 | NC DHHS submitted amended 1115 Waiver request to CMS  |
| August 2018   | DHHS released PHP RFP   |
| October 2018  | 8 offerors responded to RFP (5 CPs and 3 PLEs)  |
| October 2018  | CMS approved the State's 1115 Waiver  |
| February 2019 | 4 statewide CPs and 1 regional PLE (regions 3 and 5) awarded PHP contracts                                |
| November 2019 | PHP Standard Plans will launch in Phase One regions (2 and 4)   |
| February 2020 | PHP Standard Plans will launch in the rest of the State   |
| CY 2021       | BH IDD Tailored Plans will launch   |



# System Progression

**Mild/Moderate  
Behavioral  
Health Needs**

**Severe  
Behavioral  
Health  
Needs/IDD**

**PHP  
Carve-Out  
Populations**

## February 2019

|                   |                                |              |              |
|-------------------|--------------------------------|--------------|--------------|
| Physical Health   | Medicaid fee-for-service (FFS) | Medicaid FFS | Medicaid FFS |
| Behavioral Health | LME/MCOs                       | LME/MCOs     | LME/MCOs     |

## February 2020

|                   |                       |              |              |
|-------------------|-----------------------|--------------|--------------|
| Physical Health   | PHP<br>Standard Plans | Medicaid FFS | Medicaid FFS |
| Behavioral Health |                       | LME/MCOs     | LME/MCOs     |

## February 2022

|                   |                       |                           |               |
|-------------------|-----------------------|---------------------------|---------------|
| Physical Health   | PHP<br>Standard Plans | LME/MCO<br>Tailored Plans | Medicaid FFS  |
| Behavioral Health |                       |                           | Not specified |



# Regions

|                        | <b>Location/<br/>Largest<br/>City</b> | <b>#<br/>Counties<br/>in Region</b> | <b>Population</b> | <b>Average<br/>Median<br/>HH<br/>Income</b> | <b>#<br/>Medicaid/<br/>NCHC</b> | <b>%<br/>Medicaid/<br/>NCHC</b> |
|------------------------|---------------------------------------|-------------------------------------|-------------------|---|---------------------------------|---------------------------------|
| Region 1<br>(Feb 2020) | West/<br>Asheville                    | 19                                  | 997,100           | \$41,390                                    | 207,674                         | 20.8%                           |
| Region 2<br>(Nov 2019) | Triad/<br>Greensboro                  | 13                                  | 1,681,202         | \$43,451                                    | 369,975                         | 22.0%                           |
| Region 3<br>(Feb 2020) | Charlotte<br>Metro/<br>Charlotte      | 12                                  | 2,575,533         | \$50,911                                    | 505,301                         | 19.6%                           |
| Region 4<br>(Nov 2019) | Triangle/<br>Raleigh                  | 14                                  | 2,452,178         | \$49,844                                    | 420,957                         | 17.2%                           |
| Region 5<br>(Feb 2020) | Southeast/<br>Fayetteville            | 15                                  | 1,509,253         | \$42,661                                    | 376,125                         | 24.9%                           |
| Region 6<br>(Feb 2020) | Northeast/<br>Greenville              | 27                                  | 1,237,836         | \$42,787                                    | 300,446                         | 24.3%                           |

Sources: DHHS; Jan 2019 Medicaid enrollment report; U.S. Census Bureau



# Draft Capitation Rate

|                         | Region 1   | Region 2   | Region 3   | Region 4   | Region 5    | Region 6   |
|-------------------------|------------|------------|------------|------------|-------------|------------|
| Aged, Blind, Disabled   | \$1,373.30 | \$1,356.05 | \$1,529.02 | \$1,415.53 | \$1,278.26  | \$1,158.50 |
| New Born (<1 year)      | \$749.33   | \$707.22   | \$736.81   | \$660.06   | \$736.49    | \$563.56   |
| Child (1-20 years)      | \$166.46   | \$148.78   | \$141.55   | \$141.70   | \$147.03    | \$136.74   |
| Adult (21+ years)       | \$413.55   | \$437.60   | \$394.18   | \$385.86   | \$422.14    | \$373.97   |
| Maternity Event Payment | \$9,555.60 | \$9,760.42 | \$9,431.17 | \$8,857.91 | \$10,192.86 | \$8,844.00 |

## Capitation rate-setting process:

- Actual claims experience
- Trending factors and program adjustments
- Managed care factors: Net savings in Year 1 = 8.4%
- Add-ons for: administration (4.9%); care management (3.3%); profit/underwriting (1.75%); and premium tax (2.01%)
- Population risk adjustments will be made, too (net \$0)



# Premium Tax and Hospital Assessments

- Legislative intent to apply the State's existing insurance premiums tax to PHPs (*S.L. 2018-49, Section 8*)
  - PHPs would get paid the additional amount needed for the tax in their capitation payments (paid with 2/3 federal dollars)
  - Tax collected would be exclusively State revenue
  - House Bill 114 would enact the tax
- Current hospital assessment structure will not work correctly once transformation begins
  - Legislative intent to modify the assessments during 2019 session (*S.L. 2018-49, Section 9*)



# Division of Health Benefits

- S.L. 2015-245 established the Division of Health Benefits (DHB) and phases out the Division of Medical Assistance
- DHB responsible for implementing Medicaid transformation
- Establishment of the new division gave DHHS flexibility to pursue employees with the competencies needed to administer a Medicaid managed care delivery system
- In 2021, the Director of the Division of Health Benefits will be appointed by the Governor, subject to confirmation by the General Assembly



# Key Takeaways

- Big change – There will likely be some disruption and some noise from beneficiaries, providers, and PHPs
- Should provide greater budget predictability but not necessarily savings relative to fee-for-service
- Integrates physical and behavioral healthcare
- More to do: PHP premium tax and hospital assessments
- Contracting with LME/MCOs for BH IDD Tailored Plans on the horizon
- Measuring success of transformation



# QUESTIONS

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