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

# Medicaid Transformation Overview

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

**March 3, 2021**

# Overview

- What is transformation?
- Goals
- Structure
- Capitation rates/gross premiums tax
- Enrollee and provider experience
- Summary

# Transformation of Delivery System

- Current system:
  - Fee-for-service for physical health: NC Medicaid pays enrolled providers 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)
    - NC Medicaid pays LME/MCOs monthly per-person rates ("capitated rates") to coordinate and pay for care
- Transformed system (starts July 1, 2021):
  - NC Medicaid will pay Prepaid Health Plans (PHPs) capitated rates to coordinate and pay for integrated physical and behavioral healthcare for most Medicaid and NC Health Choice beneficiaries

# Intent of Medicaid Transformation

- S.L. 2015-245, Section 1
  - *"… 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 PHPs
  - Appropriate funds for Medicaid and NC Health Choice
  - Confirm the Director of the Division of Health Benefits (section requiring confirmation of the Director took effect Jan 1, 2021)

# Types of Managed Care Plans

- Standard Plans (See *G.S. 108D-1(36)*; will launch July 2021)
  - Plans will cover most enrollees (approximately 1.8 million)
  - 4 statewide commercial plans; 1 regional provider led entity
- Tribal Option (July 2021)
  - Indian Managed Care Entity; first of its kind in the nation
  - Offered to members of the Eastern Band of Cherokee Indians
  - 100% federal match rate
- Behavioral Health and Intellectual/Developmental Disabilities Tailored Plans (See *G.S. 108D-1(4)*; July 2022)
  - Plans will cover approximately 150,000 enrollees with severe behavioral health needs or intellectual/developmental disabilities
  - LME/MCOs will hold initial Tailored Plan contracts
- Foster Care Plans: Being planned by DHHS but no authorizing legislation

*Some populations will remain in Medicaid fee-for-service ("NC Medicaid Direct")*

# Standard Plans

## Types of Standard Plan PHPs:

1. Commercial Plans (CPs) – includes for-profit or nonprofit 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 (4 CPs were awarded contracts)
- Up to 12 regional PLE contracts (1 PLE was awarded a contract)

# Standard Benefit Plan Populations

- Approximately 1.8 million of the 2.5 million Medicaid and NC Health Choice beneficiaries will be in PHP Standard Benefit Plans
- 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
  - Other groups have delayed PHP entry (within 5 years)

# 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
- After initial 4 years, Tailored Plan contracts will be subject to RFP and may be awarded to LME/MCOs or nonprofit PHPs

# Division of Health Benefits

- S.L. 2015-245 established the Division of Health Benefits (DHB) and phased out the Division of Medical Assistance
- DHB is 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, a Director of the Division of Health Benefits is scheduled to be appointed by the Governor, subject to confirmation by the General Assembly

# Draft Capitation Rates/Standard Plans Per Member Per Month (PMPM)

| | Region 1 | Region 2 | Region 3 | Region 4 | Region 5 | Region 6 |
|---|---|---|---|---|---|---|
| *State Region* | *West* | *Triad* | *Charlotte* | *Triangle* | *Southeast* | *Northeast* |
| 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 |

Source: DHHS Prepaid Health Plan RFP Rate Book, 2018

Capitation rate-setting process (figures are from 2018 Rate Book)

- 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 premiums tax (2.01%)
- Population risk adjustments will be made, too (no net impact)

# PHP Gross Premiums Tax

- Commercial insurers operating in the State pay a tax equal to 1.9% of the insurance premiums they collect
- PHPs will pay the same tax based on the total Medicaid capitation paid to the PHP
- The tax collected from PHPs – estimated at approximately $125 million in FY 2021-22 and $250 million in FY 2022-23 – will be deposited in the General Fund
- With the PHP premiums tax, managed care is expected to have a net positive impact on State finances

# Enrollee Experience

- Open enrollment for Standard Plans begins March 15, 2021
  - Choice of 4 statewide PHPs: AmeriHealth Caritas, Healthy Blue, United HealthCare, and WellCare
  - Approximately half of enrollees will have a 5th PHP option: regional provider led entity, Carolina Complete Health
  - Recipients who have not selected a plan by May 14, 2021 will be auto-enrolled in a plan
- PHPs are required to offer current Medicaid services and may choose to offer additional or enhanced services
- Focus on whole-person care: Physical and behavioral health
  - Healthy Opportunities pilot (social determinants of health)

# Provider Experience

- Providers will need to contract separately with each of the PHPs they intend to work with
- Capitation rates set for PHPs assume a reduction in aggregate provider reimbursements
- Some provider types (hospitals, primary care physicians) have time-limited "rate floors" in managed care
- PHPs are required to contract with any provider who is willing to accept the PHP's reimbursement rate and who meets the PHP's quality standards
- PHPs must meet network adequacy standards

# Transformation Budget Implications

- FY 2020-21
  - S.L. 2020-88 authorizes use of up to $69.4 million from the Medicaid Transformation Reserve for State share of transformation contracts, IT systems, and personnel
- FY 2021-22 and beyond
  - Managed care will cost more than fee-for-service, at least for the first couple years
    - However, PHP gross premiums tax will offset the added costs
  - Fee-for-service claims runout will need to be budgeted from Medicaid Transformation Fund
  - Additional contract and IT costs

# Legislative Cost Controls for PHPs S.L. 2015-245, as amended

- Risk-adjusted cost growth must be at least 2 percentage points below national Medicaid spending growth
- PHP spending for prescribed drugs, net of rebates, ensures a net savings on drugs
- 88% Medical Loss Ratio: PHPs must spend at least 88% of the capitation payments on services, *or*
  1. Remit the difference to the Department
  2. Contribute the difference to health-related resources that improve health outcomes and cost-effective care delivery
  3. A combination of the two options

# Medicaid Transformation Summary

- Significant change in Medicaid program
- Budget goal expressed in statute is predictability, not savings
  - The newness of managed care combined with the effects of COVID-19 present challenges to projecting a managed care budget for the 2021-2023 Fiscal Biennium
  - With the PHP gross premiums tax, managed care is expected to be a net positive on State finances
  - Impact of managed care on DHB administrative costs and structure is unclear

# QUESTIONS

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