

STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER
GOVERNOR

KODY H. KINSLEY
SECRETARY

October 16, 2023

Mr. Daniel Tsai
Deputy Administrator and Director of Center for Medicaid and CHIP Services
7500 Security Boulevard
Baltimore, MD 21244

Dear Deputy Administrator Tsai:

On behalf of the State of North Carolina, I am pleased to request a conforming change to the North Carolina Medicaid Reform Demonstration (Project Numbers 11-W-00313/4 and 21-W-00070/4) under Section 1115 of the Social Security Act (“the Demonstration”) to include the adult group eligible under Section 1902(a)(10)(A)(i)(VIII) (“the new adult group”).

On March 27, 2023, Governor Roy Cooper signed NC Session Law 2023-7 authorizing the State to close the coverage gap by extending Medicaid to cover the new adult group following enactment of the budget for the 2023-2024 state fiscal year and CMS approval of the coverage expansion. On September 22, 2023, North Carolina’s General Assembly passed the 2023-2025 fiscal biennium budget, permitting expansion to take effect. Coverage for the new adult group will begin on December 1, 2023.

Most of the State’s Medicaid enrollees are served or will be served (in the case of enrollees to be covered under the Behavioral Health I/DD Tailored Plans or Children and Families Specialty Plan, once launched) through the managed care programs authorized under the demonstration. This request for a conforming change seeks to add the new adult group to all elements of the demonstration so that they, too, can be covered through the State’s managed care programs; participate in the Healthy Opportunities Pilots; and obtain care under the substance use disorder component of the demonstration.

The estimated aggregate and per enrollee expenditures for this population for the purpose of establishing the budget neutrality cap are as follows:

	DY6
Monthly Per Enrollee Expenditures	\$1,256.18
Member Months	5,200,000
Aggregate Expenditures	\$6,532,136,000

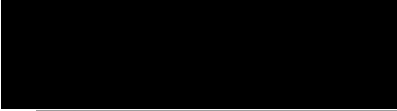
Supporting documentation related to the projected expenditures is attached.

Page Two
October 16, 2023

Once the request for a conforming change is approved, the State will revise the evaluation plan to reference the new adult group.

Through our ongoing collaboration with your team, North Carolina has taken great strides to advance high-value care, improve population health, address social drivers of health, and reduce inequities. We greatly appreciate and look forward to your continued support as we close the coverage gap in North Carolina and extend these programs to cover more North Carolinians.

Sincerely,



Kody H. Kinsley

North Carolina Budget Neutrality Estimates for Expansion

October 9, 2023

In partnership with the State of North Carolina (State or North Carolina) Department of Health and Human Services (DHHS), Mercer Government Human Services Consulting (Mercer), as part of Mercer Health & Benefits LLC, assisted the State in developing Budget Neutrality (BN) estimates to include as part of their 1115 waiver amendment related to Medicaid Expansion (Expansion) submitted to Centers for Medicare and Medicaid Services (CMS).

On March 27, 2023, Governor Roy Cooper signed House Bill 76, Access to Healthcare Options, into law. This legislation authorizes the expansion of North Carolina's Medicaid program and is expected to provide health coverage to over 600,000 adults across the State. This report documents the process Mercer used to develop the per capita caps within the 1115 BN model for this Expansion population group.

Methodology

Adults anticipated to be eligible for Expansion in North Carolina may currently be receiving health care coverage within various State programs including Medicaid prior to the public health emergency unwinding, the State's family planning program, or other limited State coverage. An additional portion may currently be enrolled in health care coverage through the Affordable Care Act Marketplace (Marketplace) or other commercial insurance. Lastly, it is estimated that a portion of Expansion adults may be currently under- or uninsured.

Given the wide array of current coverages for the Expansion adults, Mercer determined that a reasonable and appropriate proxy for health care costs may be premiums for coverage available through the Marketplace. This approach was relied upon as the premiums have already been reviewed and approved by the Department of Insurance and generally extend coverage to adults within the Expansion income levels while also considering a full spectrum of health care need levels.

Mercer began by researching various data points, namely age and smoking status, on the North Carolina and broader Medicaid populations in order to determine what the newly eligible population may look like as Marketplace premiums vary by this information. Marketplace age distributions, specific to North

Carolina, were found based on a report from the Kaiser Family Foundation¹. Additionally, the CDC reports² that in CY 2021, 21.5% of all adults enrolled in Medicaid were smokers.

Next, age and smoking status were entered into the Marketplace website to determine the premiums available to these different age groups and smokers/non-smokers. The least expensive and most expensive premiums for a one individual household in Charlotte, NC, prior to any tax credits, were noted. These premium amounts were interpolated by age band to match the distribution of the current North Carolina Marketplace population.

Mercer then applied a series of adjustments to the Marketplace premiums in order to better match the anticipated costs to Medicaid for these newly eligible individuals.

First, it was assumed that 20% of the Marketplace premium is associated with administrative costs, hence, the premiums were reduced to 80% of the gross value to proxy the medical portion of the premium. This assumption was generally based on research of commercial and Marketplace plan administrative loads.

Second, as the silver tier Marketplace plans only cover a portion of the total medical costs, which can be inferred based on the minimum actuarial value requirements associated with the Marketplace, the medical portion of the premium was increased to reflect the full 100% of cost that Medicaid will cover for the newly eligible population. To evaluate the actuarial value of the silver tier, Mercer summarized the 2023 silver tier enrollment data for North Carolina by income level along with the actuarial value requirements for each income band. Using this methodology, Mercer estimated an overall actuarial value of approximately 90.3%.

Additionally, Mercer used a similar methodology to estimate the impact of any induced utilization that may exist for the income level up to 150% of the Federal Poverty Level (FPL). Mercer relied on guidance within the Federal Risk Adjustment Methodology³ to estimate an approximate 1.11 overall induced utilization for the silver tier. Comparing this 1.11 factor to the 1.12 factor which is specific to the income level up to 150% of FPL yields that this income band may have additional utilization of up to 1% that is not captured in the average Marketplace premiums. A summary of the calculations and figures is offered in the table below. Note that these were each applied to estimate the total, average medical cost for the average silver tier enrollee with income up to 150% of FPL.

Income Level	North Carolina Silver Tier Enrollment Distribution	Actuarial Value	Induced Utilization Factor
<=150% of FPL	68.7%	94%	1.12
150%-200% of FPL	21.2%	87%	1.12

¹ <https://www.kff.org/035c6e2/>, as of June 16, 2023.

² https://www.cdc.gov/tobacco/data_statistics/fact_sheets/adult_data/cig_smoking/index.htm, as of June 16, 2023.

³ <https://www.cms.gov/files/document/2021-ra-technical-paper.pdf>, as of June 16, 2023.

Income Level	North Carolina Silver Tier Enrollment Distribution	Actuarial Value	Induced Utilization Factor
200%-250% of FPL	7.1%	73%	1.00
>250% of FPL	3.0%	70%	1.00
Overall	100%	90.3%	1.11

Next, these adjusted medical costs were reduced to reflect Medicaid pricing relative to commercial levels. This adjustment was based on the service utilization mix of the Temporary Assistance for Needy Families, Adult population in the current North Carolina Standard Plan managed care program. It is assumed that for hospital (inpatient, outpatient, and emergency department) and pharmacy services, Medicaid will pay at commercial levels. The assumption for hospitals being paid at commercial levels considers the impact of the pending healthcare access and stabilization program currently under CMS review. For all professional and other services, it is assumed that Medicaid pays at 50% of commercial levels. Blended across all services, the medical costs were reduced to 88% of commercial levels.

Finally, the 20% administrative load previously identified was added back to arrive at the total adjusted gross premium. These premiums, broken out by age band, were blended together to develop the overall gross premium which created an estimated minimum and maximum monthly premium cost for Expansion enrollees in North Carolina. The midpoint of the least expensive and most expensive Marketplace benchmark plans was then calculated and chosen as the final proxy per capita cap for the Expansion population.

The methodology is further documented in a step-by-step manner in Exhibit A of this report.

Overall, Mercer estimates a calendar year 2023 per capita cap of \$1,196.36, which, after application of a 5% annual trend, establishes a per capita cap of \$1,256.18 to be applied to demonstration year six of the existing 1115 waiver with an effective date of December 1, 2023. This trend rate is based on Mercer’s review of President’s Budget Trend factors applied to other 1115 waivers in other states. Additionally, based on discussion with the State, Mercer proposes a total, annual member month estimate of 5,200,000 for demonstration year six.

This memo was prepared on behalf of DHHS. It should be read in its entirety and has been prepared under the direction of Bob Karsten, ASA MAAA and David Salzwedel, ASA MAAA, who are members of the American Academy of Actuaries and meet its US Qualification Standard for issuing the statements of actuarial opinion herein. If there are any questions, they are available at +1 612 642 8814 or +1 612 642 8854, respectively. To the best of Mercer’s knowledge, there are no conflicts of interest in performing this work.

All estimates are based upon the information and data available at a point in time and are subject to unforeseen and random events, and actual experience will vary from estimates. Mercer expressly

disclaims responsibility, liability, or both for any reliance on this communication by third parties or the consequences of any unauthorized use.

Exhibit A

CY 2023 North Carolina Marketplace Premium Summary

Most Expensive Silver Plan								
ID	Age	Age Distribution	(B) Most Expensive Silver Level Plan Premium Total	(C) Admin Portion of Gross Premium (assumed to be 20% of Premium)	(D) Medical Portion of Gross Premium	(E) Medical Portion based on 100% Actuarial Value (AV) and 1.01 Induced Utilization Factor (IUF) ¹	(F) Medical Portion based on 100% AV and 1.01 IUF reduced by 12% to reflect Medicaid Pricing	(G) Gross Premium (Medical plus Admin)
01.	20-34	26%	\$ 1,026.54	\$ 205.31	\$ 821.23	\$ 919.34	\$ 804.43	\$ 1,009.73
02.	35-54	44%	\$ 1,593.27	\$ 318.65	\$ 1,274.62	\$ 1,426.90	\$ 1,248.54	\$ 1,567.19
03.	55-64	29%	\$ 2,584.04	\$ 516.81	\$ 2,067.23	\$ 2,314.21	\$ 2,024.93	\$ 2,541.74
04.	65+	1%	\$ 2,910.49	\$ 582.10	\$ 2,328.39	\$ 2,606.57	\$ 2,280.75	\$ 2,862.85
05.	Overall		\$ 1,747.67	\$ 349.53	\$ 1,398.13	\$ 1,565.17	\$ 1,369.53	\$ 1,719.06

Least Expensive Silver Plan

ID	Age	Age Distribution	Least Expensive Silver Level Plan Premium Total	Admin Portion of Gross Premium (assumed to be 20% of Premium)	Medical Portion of Gross Premium	Medical Portion based on 100% Actuarial Value (AV) and 1.01 Induced Utilization Factor (IUF) ¹	Medical Portion based on 100% AV and 1.01 IUF reduced by 12% to reflect Medicaid Pricing	Gross Premium (Medical plus Admin)
06.	20-34	26%	\$ 404.33	\$ 80.87	\$ 323.46	\$ 362.11	\$ 316.84	\$ 397.71
07.	35-54	44%	\$ 623.90	\$ 124.78	\$ 499.12	\$ 558.75	\$ 488.91	\$ 613.69
08.	55-64	29%	\$ 1,011.57	\$ 202.31	\$ 809.26	\$ 905.94	\$ 792.70	\$ 995.01
09.	65+	1%	\$ 1,139.07	\$ 227.81	\$ 911.26	\$ 1,020.13	\$ 892.61	\$ 1,120.43
10.	Overall		\$ 684.87	\$ 136.97	\$ 547.90	\$ 613.36	\$ 536.69	\$ 673.66

ID	Broad Category of Service	% of TANF Adult Spend	Adj Factor
11.	Hospital	40%	100%
12.	Rx	35%	100%
13.	Professional and Other	25%	50%
		Overall Estimated Medicaid Pricing Differential	88%

ID	Overall, Most Expensive Silver Level Plan Calculated Gross Premium (Line 05)	Overall, Least Expensive Silver Level Plan Calculated Gross Premium (Line 10)	Midpoint To Use as Budget Neutrality Per Capita Cap
14.	\$ 1,719.06	\$ 673.66	\$ 1,196.36

1. This calculation relies on an estimated actuarial value of 90.3% and induced utilization factor of 1.01. The AV is estimated using the distribution of silver plan enrollees by FPL band and minimum AVs for each band as required under the ACA. The induced utilization factor is calculated by first estimating the average IUF underlying the premium (estimated at 1.11) and then comparing that to the 1.12 factor in place for populations up to 200% of FPL.