Medicaid Rebase Tracking, Transparency, and Predictability

Session Law 2023-134, Section 9E.8

Report to

Joint Legislative Oversight Committee on Medicaid
By

North Carolina Department of Health and Human Services

March 24, 2025

Contents

Background

Per Section 9E.8(b) of Session Law 2023-134, the Department of Health and Human Services, Division of Health Benefits (DHB), shall, on a prescribed schedule beginning November 1, 2023, report to the Office of State Budget Management, the Joint Legislative Oversight Committee on Medicaid, and the Fiscal Research Division on the following information:

1. For the initial report, Medicaid enrollment projections for the 2023-2025 fiscal biennium. For each subsequent report, the actual enrollment relative to those projections.

2. The year-to-date General Fund expenditures for Medicaid through the most recent month for which there is complete data.

3. Projections on Medicaid General Fund expenditures needed for the remaining months in the 2023-2025 fiscal biennium.

4. Any Medicaid-related budget challenges identified by DHB for the 2023-2025 fiscal biennium and the 2025-2027 fiscal biennium, and the estimated cost related to those challenges. Challenges that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.

5. Changes to the Medicaid program that are planned to be implemented at any time in the future under the authority granted under G.S. 108A-54(e)(1), the predicted impact of those changes to the Medicaid budget for the 2023-2025 fiscal biennium and the 2025-2027 fiscal biennium, and the anticipated implementation timeline for those changes. Planned changes that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.

6. Changes to the Medicaid program required under federal or State law that will be implemented, the predicted impact of those changes to the Medicaid budget for the 2023-2025 fiscal biennium and the 2025-2027 fiscal biennium, and the anticipated implementation timeline for those changes. Changes that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.

7. Any unanticipated costs to the Medicaid program that were not accounted for in either the model used to create Governor Cooper's Recommended Budget for the 2023-2025 fiscal biennium, or the projection contained in any prior report submitted under this section. Any unanticipated costs that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.

8. The amount, if any, of funds DHB is requesting to be transferred out of the Medicaid Contingency Reserve, as established under G.S. 143C-4-11, and as much information as possible that meets the requirements under G.S. 143C-4-11(b)(3).

Report Findings

1. Medicaid Non-Expansion Enrollment Projections for the State Fiscal Year (SFY) 2025

NC Medicaid (Division of Health Benefits; DHB) works closely with the State Office of Budget & Management (OSBM) to forecast enrollment for the Medicaid program (including former NC Health Choice program members who were merged with Medicaid [1]). In advance of each State Fiscal Biennium, DHB uses this DHB-OSBM consensus Medicaid enrollment forecast as a main foundation to build the Rebased Budget ("Rebase") model for services provided to Medicaid members. The Rebase cost is primarily driven by the product of forecasted enrollment (by eligibility category) and projected average costs per member (by eligibility type or capitation rate cell) and is the cornerstone of the Governor's Recommended Biennial Budget for DHB.

The enrollment forecast used to create the Rebase for SFY 2025 is characterized by the following notable features:

1) The Continuous Coverage Unwinding (CCU) that began on July 1, 2023, marked a steady decline in non-expansion enrollment, particularly non-disabled adults. The rate of decline was slower in SFY 2024 than projected, however, due to county social services offices' operational capacity and the volume of redeterminations faced by some counties, leading enrollment on July 1, 2024, to be higher than the original biennial projection. The updated projection for CCU-related enrollment decline across SFY 2025 benefits from a year's worth of experience regarding county redetermination operations and therefore should be more accurate than the original projection. There is still a great deal of uncertainty, however, as many variables (i.e., county workforce, monthly redetermination capacity, impact of Hurricane Helene) will contribute to the actual monthly decline in enrollment over the remaining SFY 2025.

2) Medicaid enrollment in the current fiscal year is characterized by continuing extended enrollment of children (through federal "e14" flexibility), but this non-redetermination of children has, as expected, allowed the counties to focus on the adult population, leading to higher rates of redetermination and disenrollment of non-disabled adults than originally expected. This dynamic has the net effect of reducing costs to the Medicaid program (since the Per Member Per Month cost for adults is approximately 2.5 times that for children), as compared to a scenario in which the e14 flexibility was not in place in NC.

3) Historically, Non-Expansion Medicaid enrollment has remained elevated for up to two years following significant economic shocks, such as recessions. Following that same trend, Non-expansion enrollment is not projected to return to pre-COVID levels, even after unwinding is complete.

4) **Medicaid Expansion enrollment is not included** in the Rebase forecast or expenditure model. DHB will refer to "Non-Expansion (Non-Exp)" and "Expansion (Exp)" enrollment in this and future reports. Since Medicaid Expansion did not launch until December 1, 2023, there is no Expansion Enrollment until that date. Expansion enrollment and expenditures will be tracked separately, as they do not use General Fund dollars.

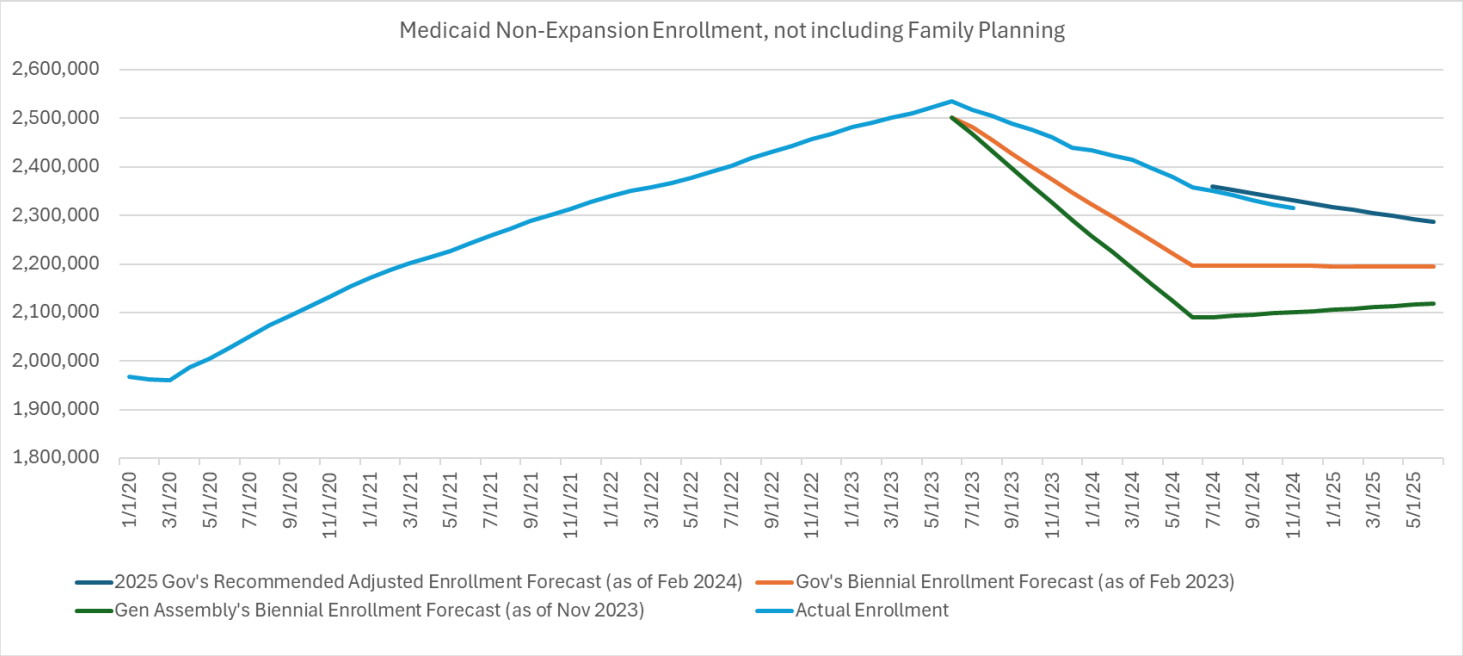
The SFY 2025 Updated Governor's Recommended Rebase (item 9 on p. 147 of Governor's Recommended Budget Adjustments FY 2024-25) utilized an updated DHB-OSBM consensus enrollment forecast that took into

[1] As of April 1, 2023, consistent with Section 15 of S.L. 2022-74 as amended by Section 3.2 of S.L. 2023-11.

account the actual experience from SFY 2024. Figure 1 illustrates this updated forecast, which is characterized by a more gradual decline than that original SFY 2025 Governor's forecast that was created in February 2023 in the run up to the 2023-25 biennium. This more gradual decline (i.e., a slower pace of redeterminations and disenrollments) reflects the expectation, based on experience to date, that the CCU will take longer to complete and therefore, the initial and average enrollment in SFY 2025 will be higher than originally forecast in the Governor's Recommended Biennial Budget.

Figure 1, "Total Non-Expansion Medicaid Enrollment SFY 2020-2025," illustrates the Governor's Rebase enrollment forecast for SFY 2025, contrasted with the actual enrollment (excluding Family Planning enrollees) observed from January 2020 through-November 2024, and the 2023-25 biennial forecasts from the original two-year Governor's and General Assembly's versions of the Medicaid Rebase. The actual total enrollment through November 2024 is tracking below the SFY 2025 updated projection because the CCU-related redetermination and disenrollment of non-disabled adults is occurring more rapidly than was projected when the SFY 2025 forecast was constructed in February 2024.

Figure 1: Total Non-Expansion Medicaid Enrollment (Excluding Family Planning) SFY 2020-2025

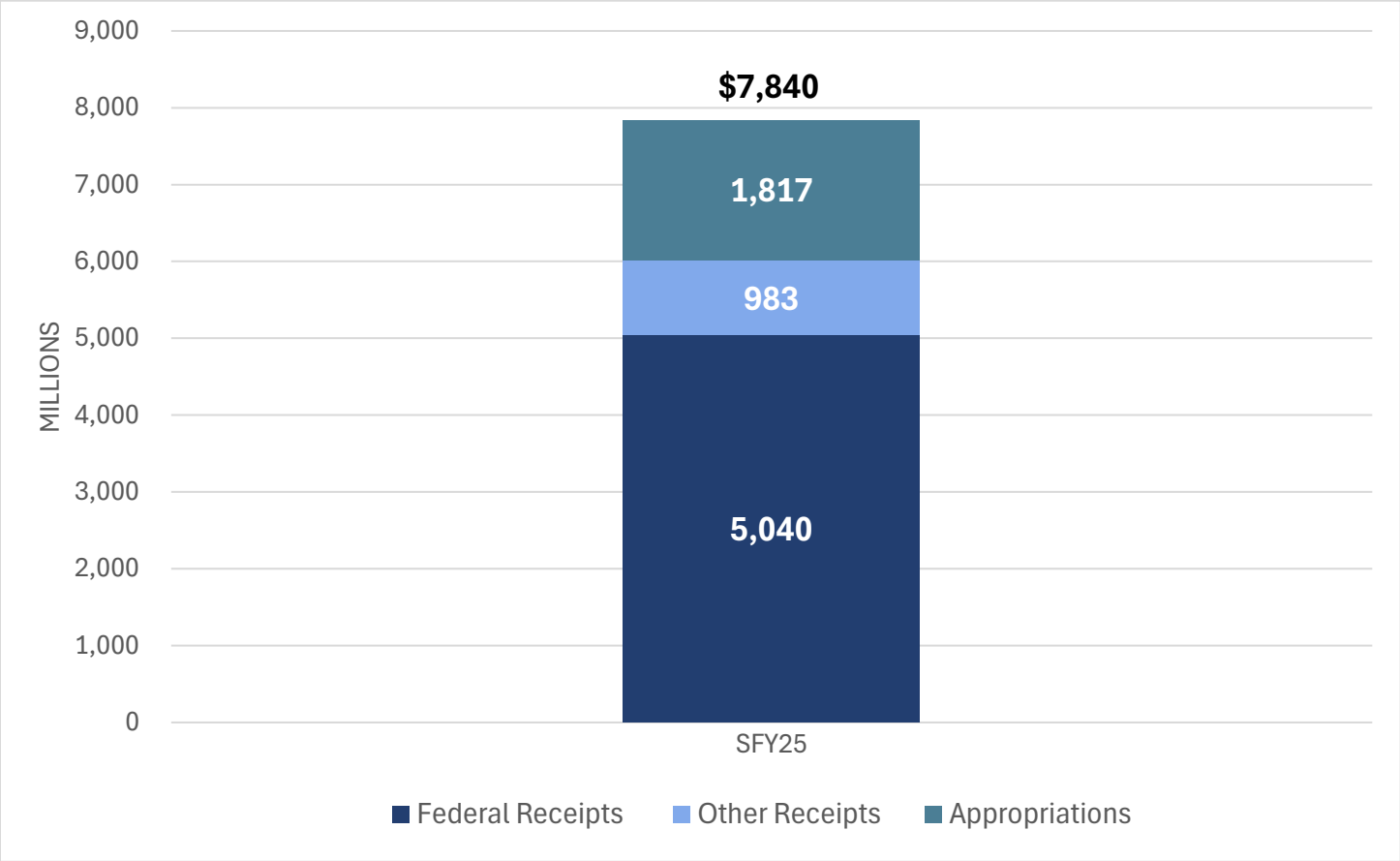


Data Sources: Medicaid Monthly Enrollment Reports; July, August, and September 2024 actuals reflect actual cumulative enrollment; October and November based on estimated cumulative (i.e., including retroactive) enrollment.

2. Year-to-Date General Fund Expenditures

The year-to-date (YTD) Medicaid expenditures, through the most recent month for which there is complete data are summarized in Figure 2 "Actual Year-to-Date Non-Expansion Medicaid Service Expenditures through October 2024."

Figure 2 Actual SFY 2025 Non-Expansion Medicaid Service Expenditures through October 2024

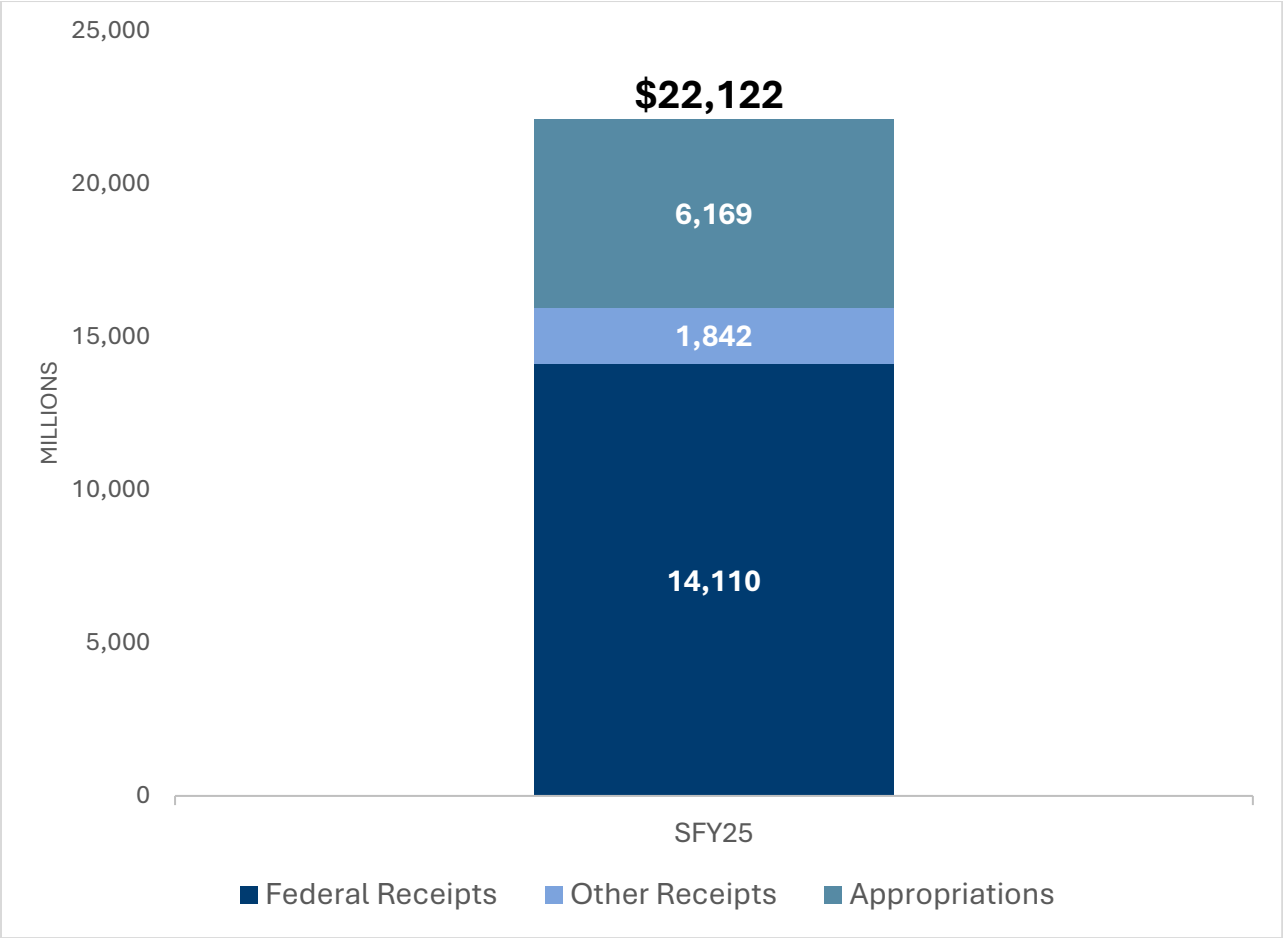


Source: SFY 2025 BD701 Report; Note – does not include HASP or Medicaid Expansion expenditures, which will have no General Fund impact. Also, excludes Healthy Opportunities, Tailored Plan Launch Runout, Temporary Savings Fund transfer out; and is adjusted to include PHP Withholds, Graduate Medical Education & Modernized Assessment/Intergovernmental Transfers.

3. Projected General Fund Expenditures for State Fiscal Year (SFY) 2025

Figure 3 "NC Medicaid Projected Non-Expansion Expenditures," illustrates the updated projected Medicaid expenditures by fund source for the biennium. This forecast comes from the update of the Governor's Recommended Budget model that was used to inform the Medicaid Rebase item in the Governor's Recommended Budget Adjustments for FY 2024-25. ***Note that this projection has not yet been updated to account for any new projection of enrollment or expenditures for the remaining months of SFY 2025 based on actual year to date data. NC Medicaid anticipates providing that updated forecast in the next iteration of this Rebase report, due February 2025.***

Figure 3: NC Medicaid Projected Non-Expansion Service Expenditures for SFY 2025



Source: Updated Governor's Budget Model; Note – does not include HASP or Expansion expenditures, neither of which have General Fund impact. This projection also has not yet been updated to account for any new projection of enrollment or expenditures for the remaining months of SFY 2025 based on actual year to date data. NC Medicaid anticipates providing that updated forecast in the next iteration of this Rebase report, due February 2025.

4. Budget Challenges Identified by NC Medicaid for SFY 2023-2025

NC Medicaid had estimated in February 2024, given the data that was available at that time, that the decrease in adult Medicaid enrollees as a result of the Continuous Coverage Unwinding would continue to be at a more gradual rate than had been projected at the start of the biennium. With the success of NC Medicaid's federal "e14 waiver" strategy for increasing the rate of redetermining adults, however, actual enrollment through the month of November 2024 suggests that overall adult enrollment for SFY 2025, even after accounting for the still uncertain effects of Hurricane Helene, will be lower than originally projected. As a result of the lower capitation costs associated with the lower-than-originally-projected adult enrollment, Medicaid does not foresee significant challenges in staying within budget for services in SFY 2025.

5. Planned Program Changes under G.S.108A-54(e)(1) Authority

NC Medicaid has made or plans to make the following program changes, each of which will have a fiscal impact (as noted below):

1. **Coverage of Weight Loss Drugs** (approximately $9 million state appropriations) – Current year capitation rates include funding to cover the use of GLP-1 drug therapies when prescribed as part of a treatment for obesity.

2. **Rate Increases for Substance Use Disorder (SUD) services** (approximately $5.5 million state appropriations) – Current year capitation rates have been increased for Substance Abuse Intensive Outpatient Program (SAIOP), Substance Abuse Comprehensive Outpatient Treatment (SACOT), Withdrawal Management, and Opioid Treatment Protocol services to modernize rates for these services that were not included in the historic behavioral health rate increase from SFY 2023. These investments will address increasing provider costs to deliver services, sustain provider participation within the Medicaid program, and support Medicaid members' access to care statewide.

6. Program Changes Required under State or Federal Law

NC Medicaid must adjust capitation rates to account for compliance with federal service parity requirements (also known as "mental health parity"). Parity requires that NC Medicaid have comparable access to services across its various lines of service (i.e., physical health and mental health services) and coverage products (e.g., Standard Plans, Tailored Plans). In order to ensure this comparability, various quantity limits on mental health services need to be removed and/or lowered, which in turn leads to a projection of higher utilization, which in turn leads to a need for higher capitation rates. The increased capitation rates, effective January 1, 2025, will cost approximately $4 million in additional appropriations for SFY 2025 (approximately $8 million annualized).

NC Medicaid has not identified any other changes required under State or Federal law that were not projected in the Governor's Recommended Budget Adjustments for SFY 2024-25 and that would create additional costs for SFY 2025.

7. Unanticipated Costs Not Accounted for in the Budget Model

As noted above in section five, NC Medicaid has taken several actions to make critical enhancements to clinical coverages and rates that will enhance Medicaid enrollees' access to health-improving treatments and supports.

NC Medicaid is also investing dollars in the high-value/high-return social determinants of health supports delivered through the Healthy Opportunities Pilots (not a part of the rebase but rather funded from Medicaid Transformation funding). In addition to the funding included in the Governor's Medicaid Transformation Fund request for SFY 2025 ($20.8 million), NC Medicaid anticipates spending another $25 million to meet the increased demand projected for SFY 2025; together this represents $45 million of appropriations spend that was not funded explicitly by a legislative appropriation. Initial research has indicated that dollars invested in Healthy Opportunities produce net savings for the health system over time; NC Medicaid does not anticipate savings to the state being realized in this current fiscal year but does anticipate this year's investments may lower next year's capitation rates.

8. Requested Transfer of Medicaid Contingency Reserve

DHB is not requesting any Medicaid Contingency Reserve Funds at this time.

Future reports will provide updates regarding assessment of this need.

Appendix: Prior Report Submission (April 2024 – Submitted July 2024)

Report Findings

1. Medicaid Non-Expansion Enrollment Projections for the 2023-2025 Fiscal Biennium

NC Medicaid (Division of Health Benefits; DHB) works closely with the State Office of Budget & Management (OSBM) to forecast enrollment for the Medicaid program (including former NC Health Choice program members who were merged with Medicaid [2]). In advance of each State Fiscal Biennium, DHB uses this DHB-OSBM consensus Medicaid enrollment forecast as a main foundation to build the Rebased Budget ("Rebase") model for services provided to Medicaid members. The Rebase cost is primarily driven by the product of forecasted enrollment (by eligibility category) and projected average costs per member (by eligibility type or capitation rate cell), and is the cornerstone of the Governor's Recommended Biennial Budget for DHB.

The enrollment forecast used to create the Rebase included in the Governor's Recommended Biennial Budget for DHB for State Fiscal Year (SFY) 2023-2025 is characterized by the following notable features:

1) The beginning of this biennium, July 1, 2023, coincides with the end of the years long COVID-19 federal Public Health Emergency (PHE) policy during which Medicaid members were extended continuous coverage, regardless of the determination of their eligibility, as a condition of the State receiving enhanced federal matching dollars under the Families First Coronavirus Act of 2020 (FFCRA)[3]. During the effective period of this PHE policy (March 2020 – June 2023), NC Medicaid added approximately 750,000 members across all eligibility categories (not including the temporary, 100% federally-funded uninsured COVID-related-benefit-only category, which enrolled an additional approximately 50,000 individuals). Continuous Coverage Unwinding (CCU) which resulted in terminations effective beginning on July 1, 2023, marks a projected steady decline in non-expansion enrollment, from a peak of just under 3 million members. However, this projection contains a larger-than-typical amount of uncertainty, as many variables will contribute to the actual monthly decline in enrollment over the course of the biennium.

2) The Medicaid eligibility categories that saw the largest increases during the PHE were non-disabled adults and children. These categories of members are expected to experience the largest enrollment decreases during the CCU. Enrollment of aged, blind, and disabled individuals did not increase significantly during the PHE and therefore is not expected to decrease much over the 2023-2025 biennium.

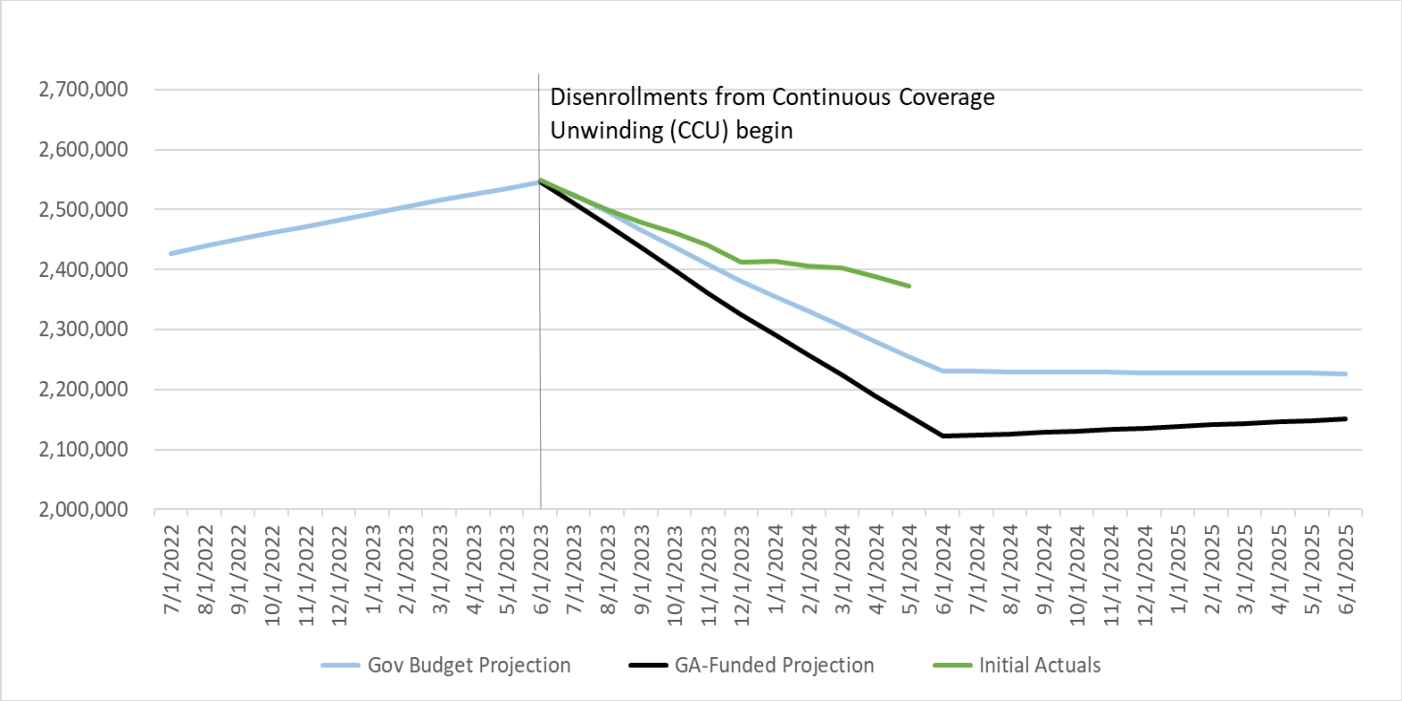
3) Historically, Medicaid enrollment has remained elevated for up to two years following significant economic shocks, such as recessions. Non-expansion enrollment is not projected to return to pre-COVID levels, even after unwinding is complete.

4) Medicaid Expansion enrollment is not included in the Rebase forecast or expenditure model. DHB will refer to "Non-Expansion (Non-Exp)" and "Expansion (Exp)" enrollment in this and future reports. Since Medicaid Expansion did not launch until December 1, 2023, there is no Expansion Enrollment until that date. Expansion enrollment and expenditures will be tracked separately, as they do not use General Fund dollars.

[2] As of April 1, 2023, consistent with Section 15 of S.L. 2022-74 as amended by Section 3.2 of S.L. 2023-11.
3 P.L. 116-127.

Figure 1, "Total Non-Expansion Medicaid Enrollment," illustrates the Governor's Rebase enrollment forecast for the biennium, contrasted with the enrollment forecast associated with the Rebase amount that the General Assembly funded in SL 2023-134, and with the actual enrollment (excluding family planning enrollees) observed for the months of July 2023– May 2024. The actual CCU disenrollments through May 1, 2024, are lower than both the General Assembly and Governor's budget forecasts, meaning more people are actually remaining enrolled in Medicaid than had been projected.

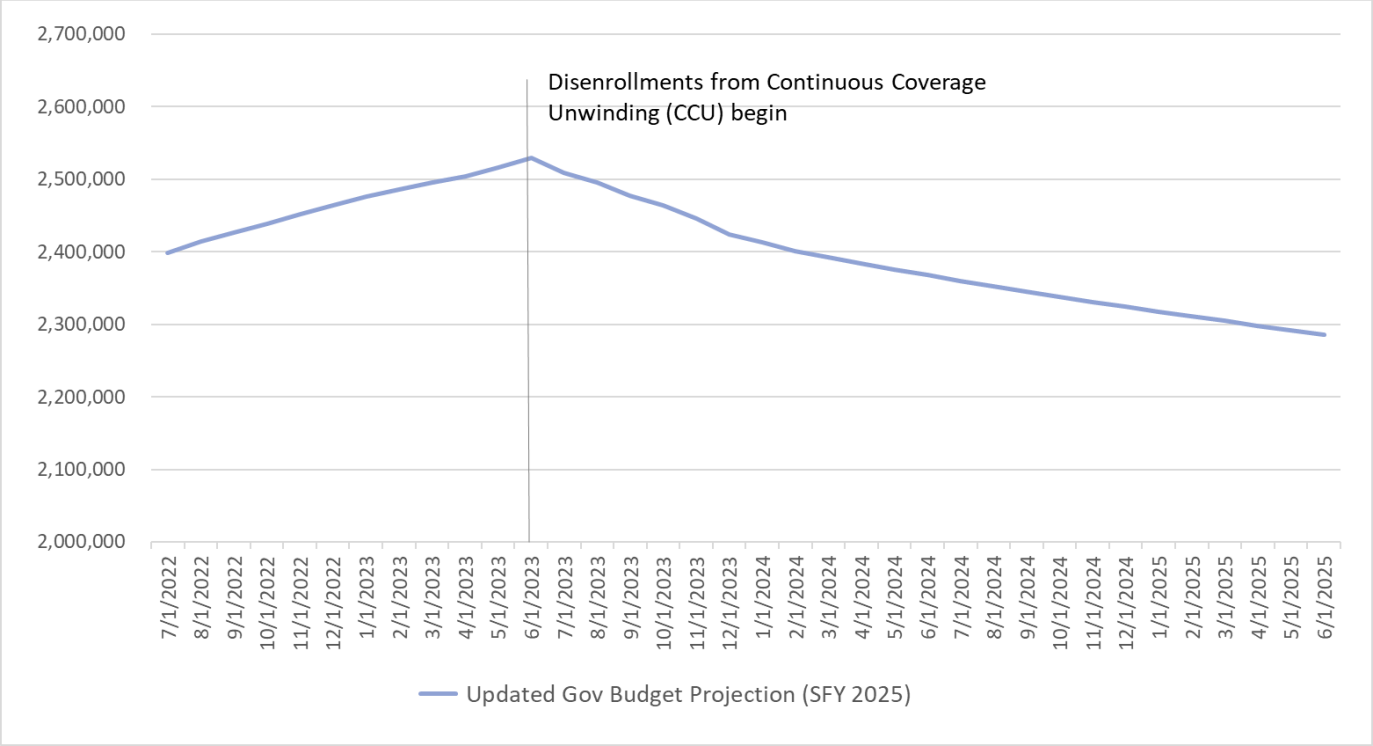
Figure 1: Total Non-Expansion Medicaid Enrollment (Excluding Family Planning) through May 2024



Data Sources: May 2023 Updated Governor's Budget (Oct 24,2023 update); Fiscal Research Division enrollment projections associated with SL 2023-134 Rebase funding; Medicaid Monthly Enrollment Reports (Initial Actuals are as of the date of each monthly report)

The SFY 2025 Updated Governor's Recommended Rebase (item 9 on p. 147 of Governor's Recommended Budget Adjustments FY 2024-25) utilizes an updated DHB-OSBM consensus enrollment forecast that takes into account the actual experience from SFY 2024. Figure 2 illustrates this updated forecast, which is characterized by a more gradual decline than that original biennial forecast. This more gradual decline (i.e., a slower pace of redeterminations and disenrollments) means that the CCU will take longer to complete and therefore, the initial and average enrollment in SFY 2025 will be higher than originally forecast in the Governor's Recommended Biennial Budget.

Figure 2: Updated Total Non-Expansion Medicaid Enrollment (Excluding Family Planning) Forecast

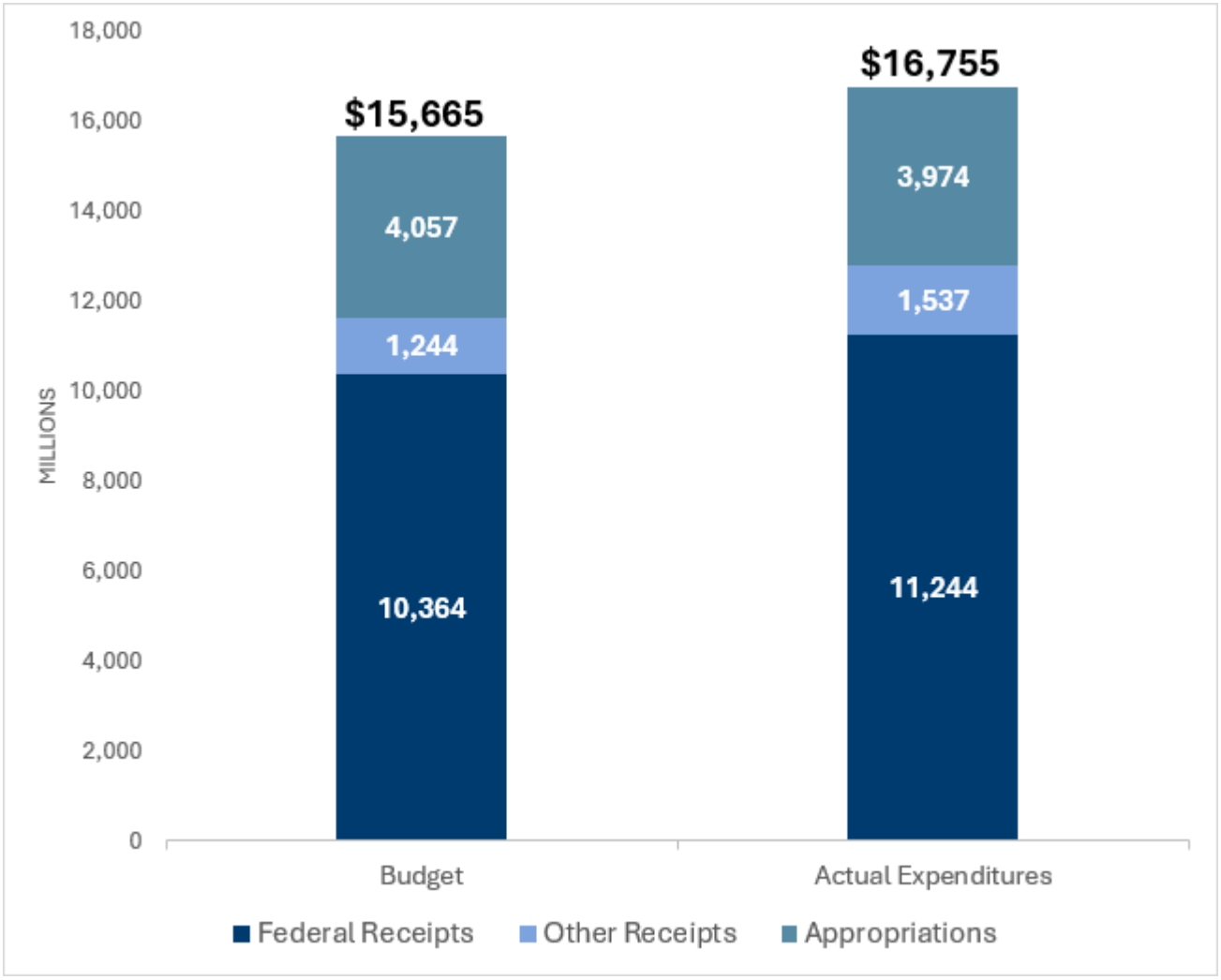


Data Source: Updated enrollment forecast used to construct Medicaid Rebase item in Governor's Recommended Budget Adjustments for FY 2024-25

2. Year-to-Date General Fund Expenditures

The year-to-date Medicaid expenditures, as compared to budget, through the most recent month for which there is complete data are summarized in Figure 3, "Actual Year-to-Date Non-Expansion Medicaid Service Expenditures through March 2024." Through March 2024, DHB's expenditure of State appropriations dollars is under budget. This status is now expected to hold through the remainder of SFY 2024, largely due to over-realized and/or unplanned non-recurring receipts. These receipts enable higher-than-projected overall/total spending with less non-federal share coming from State appropriations dollars.

Figure 3: Actual Year-to-Date Non-Expansion Medicaid Service Expenditures through March 2024



SOURCE: Actual service expenditures as of March 2024 from March BD701; Budget from certified budget, apportioned based on spend pattern projected in May 2023 Updated Governor's Budget (Oct 24,2023 update). Neither budget nor actual expenditures include Health Access Stabilization Program (HASP), which would only affect receipts, not appropriations.

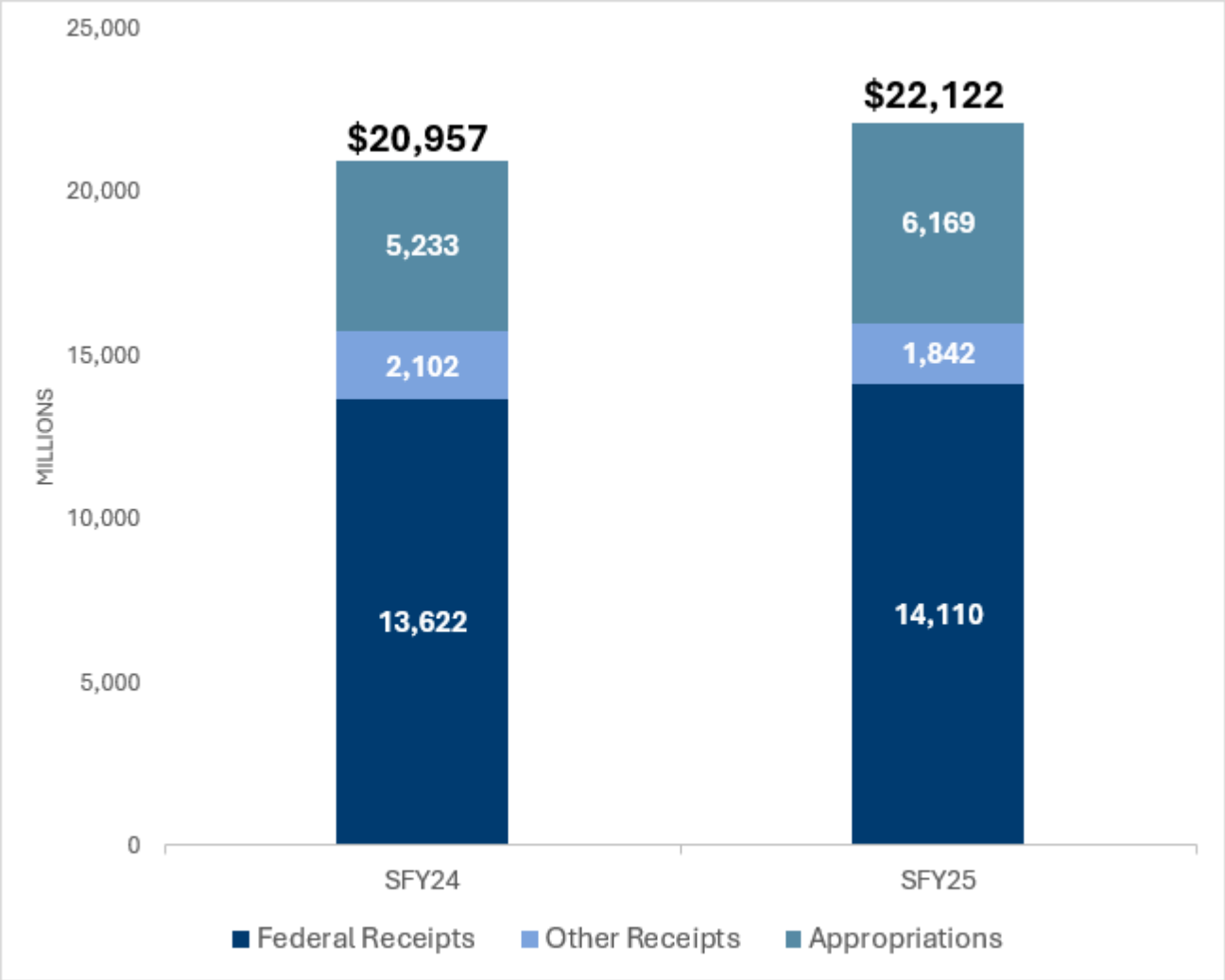
3. Projected General Fund Expenditures for State Fiscal Years (SFY) 2023-2025

Figure 4, "NC Medicaid Projected Non-Expansion Expenditures," illustrates the updated projected Medicaid expenditures by fund source for the biennium. This forecast comes from the most recent update of the Governor's Recommended Budget model, which was used to inform the Medicaid Rebase item in the Governor's Recommended Budget Adjustments for FY 2024-25. As noted in Figure 3 above, the updated projection is based on the latest enrollment forecast that takes into account actual enrollment data through May 2024 (i.e., the green line in Figure 1). Based on actual expenditures through March 2024, NC Medicaid now projects that, despite enrollment being higher than originally forecast, total non-Expansion expenditures for SFY 2024 will be less than what is budgeted. Preliminary analysis of Medicaid expenditure patterns indicates

that while actual service expenditures are tracking somewhat lower than originally forecast, the largest factor contributing to the program being underbudget is over-realized and/or unplanned non-recurring receipts.

The Medicaid Rebase need for SFY 2025 has also been adjusted since the last version of this report. As is typical for a Medicaid Rebase request, the increased $458 million of non-federal share cost identified in the Governor's Recommended Budget Adjustments for FY 2024-25 comes from a combination of higher enrollment, year-over-year health care cost inflation, and adjustments to the federal match rate, which is decreasing in SFY 2025 from the initial estimated rate that was included in the Governor's Biennial Budget Recommendation.

Figure 4: Updated NC Medicaid Projected Non-Expansion Expenditures for SFY 2024 and 2025



Data Sources: SFY 2025 Updated Governor's Recommended Rebase (item 9 on p. 147 of Governor's Recommended Budget Adjustments FY 2024025); SFY 2024 adjusted to account for non-federal receipts not contained in the forecast model.

4. Budget Challenges Identified by NC Medicaid for SFY 2023-2025

In light of updated expenditure and receipt projections, NC Medicaid now expects to finish SFY 2024 within budget.

Looking ahead to SFY 2025, NC Medicaid believes that the $458 million Medicaid Rebase item in the Governor's Recommended Budget Adjustments for FY 2024-25 accounts appropriately for the additional non-federal share rebase costs forecast for SFY 2025. Medicaid does not foresee significant challenges in staying within budget in SFY 2025 if the Medicaid Rebase is funded at the Governor's recommended level.

The Governor's Recommended Budget Adjustments for FY 2024-25 also contain requests for mission-critical funding for significant recurring health care provider rate increases for many provider types to maintain access to care for Medicaid members. Over the past three budget cycles, the General Assembly has helped to stabilize access to care by appropriating much needed recurring funding for rate increases to long term care providers (e.g., Skilled Nursing Facilities, Adult Care Homes, Personal Care Services, Community Alternatives Programs), Behavioral Health Services, and has supported both Facilities-based (e.g., Intermediate Care Facilities for Individuals with Intellectual and Developmental Disabilities/ICF-IDD) and Home and Community-Based Services (e.g., Home Health, Innovations Waiver) providers. Many other provider types, such as Durable Medical Equipment (DME), Specialized Therapies (e.g., Speech-Language, Occupational, Physical), Dialysis, and Dental, have not received rate increases, however, and are struggling to continue serving Medicaid members at reimbursement levels that have not seen rate increases since 2012-2015.

5. Planned Program Changes under G.S. 108A-54(e)(1) Authority

NC Medicaid does not plan to make any program changes during the remainder of SFY 2024 that are projected to have a material impact on SFY 2024 expenditures or the program's year-end financial position.

6. Program Changes Required under State or Federal Law

Since the prior version of this report, NC Medicaid has not identified any additional changes required under State or Federal law that create additional costs that are not covered with additional appropriated State funding.

7. Unanticipated Costs Not Accounted for in the Budget Model

As discussed above, the most significant unanticipated costs not accounted for in either NC Medicaid's or the General Assembly's biennial budget model remain those associated with Medicaid enrollment staying higher in full-benefit programs and for longer than projected in either model. In SFY 2024, the additional cost associated with this higher-than-expected enrollment has been offset by over-realized and unplanned receipts.

For SFY 2025, the Governor's Recommended Budget Adjustments for SFY 2024-25 include several items adding funding for mission-critical recurring health care provider rate increases to maintain access to care for Medicaid members. Over the past three budget cycles, the General Assembly has helped to stabilize access to care to many services by appropriating much needed recurring funding for rate increases to long term care providers (e.g., Skilled Nursing Facilities, Adult Care Homes, Personal Care Services, Community Alternatives Programs), Behavioral Health Services, and has supported both Facilities-based (e.g., Intermediate Care Facilities for Individuals with Intellectual and Developmental Disabilities/ICF-IDD) and Home and Community-Based Services (e.g., Home Health, Innovations Waiver) providers. Many other provider types, such as Durable Medical Equipment (DME), Specialized Therapies (e.g., Speech-Language, Occupational, Physical), Dialysis, and Dental, have not received rate increases, however, and are struggling to continue serving Medicaid members at reimbursement levels that have not seen rate increases since 2012-2015.

8. Requested Transfer of Medicaid Contingency Reserve

DHB is not requesting any Medicaid Contingency Reserve Funds at this time and does not anticipate requesting any for SFY 2024.