

# MANAGED MEDICAID IS COMING TO NORTH CAROLINA – ARE YOU READY?



## How Wakely Can Help

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As you may know, the State of North Carolina has, for the first time ever, released a RFP soliciting managed care plans to bid on covering Medicaid beneficiaries statewide. With over 1.5 million beneficiaries eligible for Managed Medicaid, this represents an unprecedented opportunity for managed care organizations in North Carolina.

This brief summarizes what the State has published and describes how Wakely can help answer the following questions:

- What are the most important factors for winning a bid?
- Are the proposed rates appropriate for your organization?
- If I win, what will it take to ensure profitability?
- How can I assess potential managed care savings?
- How is a Medicaid population different from Commercial/ACA or Medicare?
- How will risk adjustment work, and what do I need to do to ensure that risk adjustments are appropriate?
- Which regions should I enter?
- How does the MLR work?

## North Carolina's Medicaid Transformation

North Carolina is one of a very few states whose Medicaid program is primarily fee-for-service, and for many years has used a PCCM (Primary Care Case Management) delivery system to provide care to their Medicaid beneficiaries. In 2019 however, North Carolina will be introducing Medicaid managed

care, which, in the words of the North Carolina Department of Health and Human Services (DHHS) “[is the most significant change to \[their\] Medicaid program in over 40 years](#)”.

North Carolina’s move toward managed care has been thoughtful and measured, with DHHS seeking stakeholder input on the transition for well over a year. Prior to the recent RFP release, DHHS released details on their proposed program design in August 2017 and followed up with an Actuarial RFI in November 2017, seeking comment on the rate setting process. Both managed care companies and providers have been watching developments in North Carolina with interest, and there have been multiple announcements of payers and providers partnering to respond to the RFP.

Currently, North Carolina has nearly two million Medicaid beneficiaries. DHHS expects that once they fully transition into managed care – occurring over a period of 4 years – roughly 1.8 million beneficiaries will be covered by Prepaid Health Plans (PHPs), DHHS’s parlance for MCOs. Covered populations will initially include TANF, ABD and CHIP, and are expected to total about 1.5 million beneficiaries. Eventually, Dual-eligibles and Foster Children will be covered as well. There also exists the possibility that the proposed "Carolina Cares" program being considered by the North Carolina General Assembly - which would make childless adults and parents with low incomes eligible for Medicaid - will add additional Medicaid expansion-like beneficiaries to managed care (note that North Carolina is not a state that has opted to expand Medicaid).

DHHS expects to award four statewide contracts and up to twelve regional contracts to PHPs. DHHS distinguishes between "Commercial Entities" (CEs), who can only bid statewide, and "Provider-led Entities" (PLEs), who can bid either statewide or in 1 or more of the state's 6 regions. The contracts will run from November 2019 to June 2022. DHHS expects that at a minimum, PHPs will enroll 45,000 to 50,000 beneficiaries. PHPs will cover physical health, behavioral health and pharmacy services. Beginning in Year 2, DHHS plans on introducing "Tailored Plans" that will target populations with specific needs like the seriously mentally ill or substance use segments; these will be procured separately at a later date. The tailored plans will have a separate product designed for the unique needs of these populations that will also integrate physical health services and rehabilitative supports.

The RFP includes draft rates that bidders will need to assess; bidders will not need to develop a separate cost proposal. DHHS expects that the final rates will use updated utilization and cost data (SFY2017 and SFY2018 data), relative to the data used for the draft rates in the RFP (a 20%/80% blend of SFY2016 and SFY2017 data). DHHS developed an administrative cost load based on the costs associated with various administrative functions, rather than simply using a percent-of-premium approach. Capitation rates includes a 1.75% underwriting gain. DHHS intends to risk adjust their capitation rates (using the CDPS+Rx model), although this is not included in the draft rates. They will also utilize withholds for as much as 5% of the rate. DHHS will also introduce an MLR requirement with an 88% MLR threshold.

DHHS will award bonus points worth 2.5% of the total RFP points based on a commitment from PHPs to participate on North Carolina’s Individual Exchange in 2021, and for their expected participation footprint. DHHS may sanction PHPs that do not follow through on commitments.

## North Carolina Medicaid Transformation Timeline

**Aug 8, 2017:** DHHS releases proposed [Medicaid managed care program design](#)

**Nov 2, 2017:** DHHS issues RFI on actuarial aspects of a Medicaid managed care program

**May 16, 2018:** DHHS releases policy paper “Prepaid Health Plans in North Carolina Medicaid Managed Care”

**Aug 9, 2018:** DHHS releases of the North Carolina Medicaid RFP and data book

**Aug 21, 2018:** Bidder’s conference

**Oct 12, 2018:** RFP responses due

**Feb 4, 2019:** Contract award date

**Nov 1, 2019:** Managed Medicaid program goes live for Phase 1 regions

**Feb 1, 2020:** Managed Medicaid program goes live for Phase 2 regions

## How Wakely Can Help

Wakely has already begun to invest resources and build tools in preparation for the North Carolina RFP, expecting to assist clients with questions and support if needed. Using our proven approach from Medicaid RFPs in other states, we intend to:

- Review DHHS materials so we understand the logistics of the process and can help plans strategize in their responses.
- Participate in any Q&A opportunities or DHHS on-site meetings.
- Develop a generic actuarial cost model based on the databook that can incorporate plan specific provider reimbursement levels, trend, managed care savings, and administrative cost expectations.
- Build a pro forma model that projects multi-year cash flows and profitability.
- Review the State’s proposed risk adjustment process so that bidding plans understand any implications.

As work is refined to client-specific strategy and the RFP response, specific teams of credentialed actuaries are assigned to each client. Our client service agreements describe the terms of the engagement and discuss specifics regarding confidentiality and avoidance of any conflicts of interest.

Wakely is committed to our clients' confidentiality and is experienced in establishing "firewalls" to ensure that.

North Carolina's RFP differs from many other states in that it does not require bidders to develop acceptable rates. Rather, DHHS will develop "take-it-or-leave-it" rates based on fee-for-service experience and bidders will have to determine if they can accept the proposed rates. Wakely is currently building an actuarial cost model to support bidders' assessment of the DHHS draft rates. Wakely's model, which is expected to be available shortly after the release of the RFP, will allow bidders to input their own assumptions for factors like managed care impact, provider reimbursement, trend and administrative cost.

We anticipate that client-specific work may include:

- Incorporating strategic considerations that impact rate requirements (e.g., provider shared savings agreements and medical management initiatives).
- Projecting rate requirements using PHP-specific trends, managed care savings and administrative costs.
- Developing benchmarks for service and eligibility categories to assess reasonability of managed care savings.
- Developing multiple financial forecast simulations to support understanding of inherent risks.
- Incorporating client-specific historical data into the framework.
- Completing feasibility studies for MCOs.
- Negotiating with DHHS, if required.

## **Wakely's Medicaid Experience**

Wakely has a strong national Medicaid practice, consisting of 20 credentialed actuaries who are actively involved in day-to-day work surrounding managed Medicaid programs in various states. They participate in client meetings and onsite at the State capital during rate negotiations. We have built a strong reputation with government agencies and managed care organizations.

Wakely has access to both fee-for-service (FFS) and managed care data sources for Medicaid programs in many states. In addition, Wakely purchases other data sets including the Medicare 5% Sample and has access to additional internal studies and research. Highlights of Wakely's national Medicaid experience:

- Assisting state health plan associations in nine states with rate review support, historical data aggregation and financial evaluation of proposed rate changes. This includes evaluating the reasonability of actuarial assumptions around items such as prospective trend, program and

population changes, and identification of errors or inconsistencies with actuarial practices, rate-setting policy and program decisions.

- Strategic and actuarial support of Medicaid rate bidding and negotiation to specific health plans in approximately ten additional states.
- Financial reporting of Medicaid lines of business, which provides drill down analytics for drivers of trend and costs, as well as the basis to perform a projection in support of rate negotiation strategies.
- In last year's highly publicized Florida Medicaid ITN, Wakely worked with ten different bidders supporting their ITN responses.

## **Wakely History**

Wakely was founded in 1999 in Florida. Since then, Wakely has expanded and includes offices in Atlanta, Denver, Minneapolis, New York, Phoenix, and Tampa. Wakely employs over 100 consultants and analysts and over 50 credentialed actuaries. Wakely's staff specializes in health care financing, working directly with government and commercial health plans on public and private programs. Wakely has considerable experience in carrying out complex projects, yet our size and structure allow us to be nimbler and more responsive than larger firms.

Wakely has experience and depth in all facets of actuarial analysis in the health practice area such as pricing, claim liability (reserve) analysis, pro forma financial and capital modeling, risk score projection and review, statutory compliance consulting, actuarial projections, and other ad hoc analyses. Our expertise with managed care products includes Medicare Advantage, Qualified Health Plans under the Affordable Care Act, Medicaid, State Children's Health Insurance Program (SCHIP), group employer coverage, ERISA/self-funded plans, and ancillary products such as dental, vision, and mental health.

## **Contacting Wakely**

If you are interested in utilizing Wakely services for assistance with Medicaid in North Carolina or want to hear more about how we can help you prepare for the RFP, we encourage you to call your Wakely consultant or Nate Baehr at 202.740.6284.