



JOINT LEGISLATIVE OVERSIGHT COMMITTEE ON MEDICAID

NC Department of Health and Human Services **Explanation of Medicaid Cost Growth and Response to Projected Budget Shortfall**

Jay Ludlam
Deputy Secretary, NC Medicaid

Adam Levinson
Chief Financial Officer, NC DHHS

Julia Lerche
Chief Strategy Officer and Chief Actuary, NC Medicaid

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Health Care Cost Pressures Across All Markets

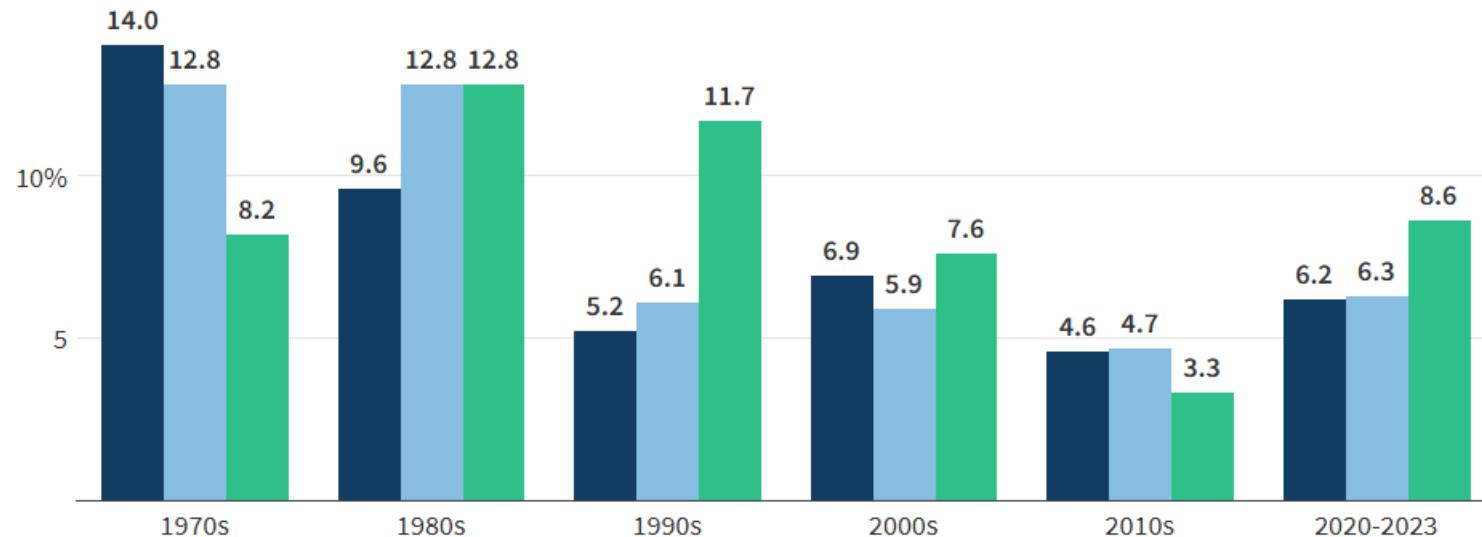
- **Inflation**
- **Increased drug spending – unit price growth, new cell and gene therapies, increased demand for weight-loss drugs**
- **Increased use of behavioral health services, including autism services**
- **Market uncertainty**
 - **The Reconciliation Bill, H.R.1**
 - **Regulatory changes**
 - **Medicaid and marketplace eligibility changes impacting risk pool and number of uninsured**

Source: <https://actuary.org/wp-content/uploads/2025/07/brief-Drivers-2026-Premium.pdf>

Health Care Spending Trends Nationally are Higher Now than in the 2010s

Average Annual Expenditures Growth Rate for Select Service Types, 1970-2023

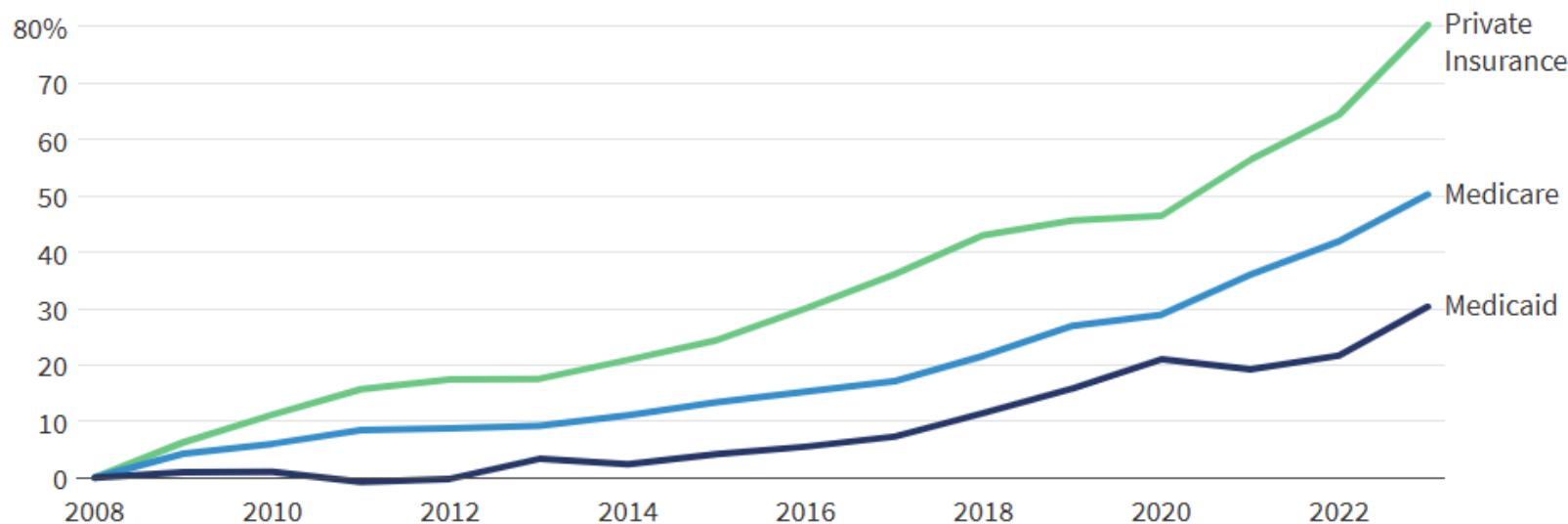
■ Hospitals ■ Physicians & clinics ■ Retail prescription drugs



Source: <https://www.kff.org/health-costs/health-policy-101-health-care-costs-and-affordability/?entry=table-of-contents-what-factors-contribute-to-u-s-health-care-spending>

Medicaid Spending Trends Nationally are Lower than Medicare and Private Insurance

Cumulative Growth in Per-Enrollee Spending by Private Insurance, Medicare, and Medicaid, 2008-2023



Source: <https://www.kff.org/health-costs/health-policy-101-health-care-costs-and-affordability/?entry=table-of-contents-what-factors-contribute-to-u-s-health-care-spending>

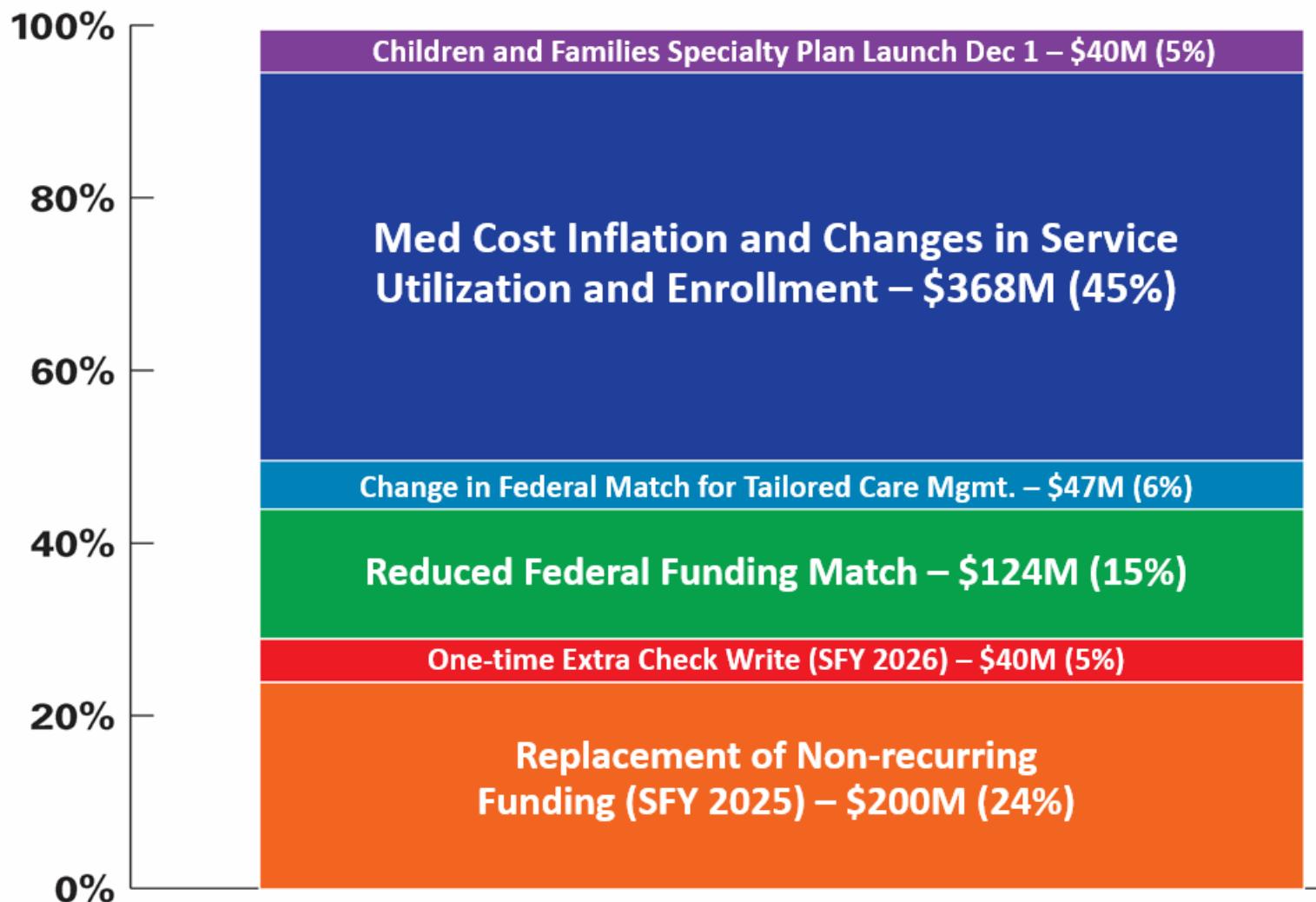
NC Medicaid Capitation Rate Growth is Slower than National Average

- North Carolina Medicaid's Standard Plan capitation rates have been growing 1.7% less per year than national trends on average over the last four years

Source	2023	2024	2025	2026	Average Annual Increase
Standard Plan Non-Expansion Rate	2.9%	6.8%	6.5%	3.8%	5.0%
National Health Expenditure Per Enrollee trends from the CMS Office of the Actuary	5.2%	10.2%	5.8%	5.8%	6.7%

Source: Mercer

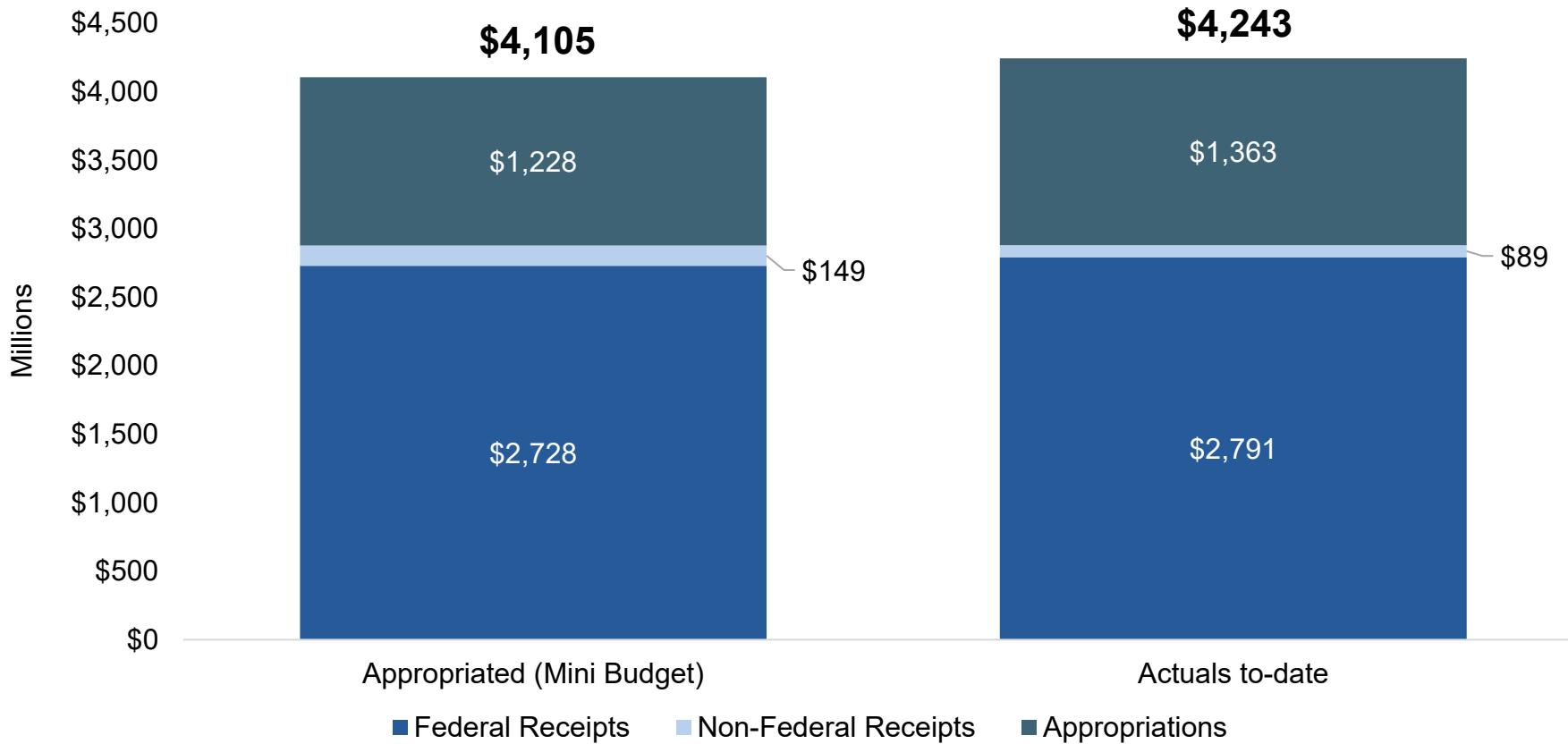
Current Medicaid Rebase Drivers



45% of the Rebase Request (\$368M) is Tied to Medical Trends Similar to the Private Health Insurance Market

- **Capitation rate increases based on actuarial soundness requirements**
 - Standard Plans: 3.6% increase
 - Tailored Plans: 7.0% increase
 - Behavioral Health (BH) and I/DD only with LME-MCOs: 13.9%
- **Key drivers include:**
 - Significant autism service utilization growth (impacting mostly Tailored Plans and BH I/DD only)
 - Expanded coverage of GLP-1s for weight loss and other clinical indications
 - Pharmacy trends exceeding 7% annually
 - Increased utilization of HCBS services for BH and I/DD populations
 - Standard plan administrative cost increases of 13.1% to reflect plan experience vs. actuarial modeling
- Cost growth was somewhat mitigated by expected additional managed care efficiency adjustments with assumption plans will continue to shift care from hospitals to lower cost settings and expected enrollment reductions

Non-Expansion Actual Service Expenditures vs. Appropriated in Mini Budget, SFY 25



Source: Budget and Actuals derived from BD-701 August Authorized Budget corresponding to rebase appropriation of \$518 million; does not include Health Access Stabilization Program (HASP).

Reductions Effective October 1, 2025

- **Provider Rate Reductions from 3%, 8%, 10%**
- **Pre-paid Health Plans Rate Reductions**
 - 1.5% capitation rate reduction for Standard Plans
 - A capitation rate is a fixed amount of money paid per patient per month to a healthcare provider in advance, regardless of how many services the patient uses. 1.5% is the maximum flexibility allowed by CMS
- **Service Eliminations**
 - **GLP-1 drugs for weight loss** – Added in 2024 to improve health outcomes and reduce future costs. Still required to cover GLP-1s for other clinical needs like diabetes and heart disease. Will continue to cover other rebate eligible drugs for the indication of weight loss
 - **Integrated Care for Kids Pilot** – NC InCK (Standard Plan & Tailored Plans) – Coordinated approach that combines physical health, mental health, and social services to address the whole child's needs in a collaborative way. This will phase down Medicaid's financial commitments to support InCK starting early October.

Looking Ahead

- Increasing healthcare costs & inflation are impacting all health sectors
 - North Carolina Medicaid is outperforming national trends
- Insufficient budget availability likely to impact access to care
- Considering the stakeholder impact of potential program changes is critical, especially considering other pressures (i.e. federal changes)
- Legislative partnership is critical to successfully implementing upcoming federal changes