



North Carolina Department of Health and Human Services

Pat McCrory
Governor

Aldona Z. Wos, M.D.
Ambassador (Ret.)
Secretary DHHS

Adam Sholar
Legislative Counsel
Director of Government Affairs

April 1, 2014

SENT VIA ELECTRONIC MAIL

The Honorable Ralph Hise, Co-Chair
Joint Legislative Oversight Committee on
Health and Human Services
Room 1026, Legislative Building
Raleigh, NC 27603

The Honorable Justin Burr, Co-Chair
Joint Legislative Oversight Committee on
Health and Human Services
Room 307A, Legislative Office Building
Raleigh, NC 27603-5925

The Honorable Mark Hollo, Co-Chair
Joint Legislative Oversight Committee on
Health and Human Services
Room 639, Legislative Office Building
Raleigh, NC 27603-5925

Dear Senator Hise and Representatives Burr and Hollo:

Pursuant to the provisions of Session Law 2013-360, Section 12H.12, the Department of Health and Human Services is pleased to submit the report on the study of potential savings through the purchase of health insurance for persons currently served by programs administered by the Department.

Questions concerning this report may be directed to Melanie.Bush@dhhs.nc.gov (919) 855-4115 within the Division of Medical Assistance or Marjorie.Donaldson@dhhs.nc.gov (919) 855-4850 in the Division of Budget & Analysis.

Sincerely,

Adam Sholar

Cc: Robin Cummings
Rod Davis
Penelope Slade-Sawyer
Melanie Bush
Pam Kilpatrick

Sarah Riser
Pat Porter
Kristi Huff
Brandon Greife
Marjorie Donaldson

Theresa Matula
Joyce Jones
Steve Owen
reports@ncleg.net
Susan Jacobs

www.ncdhhs.gov

Tel 919-855-4800 • Fax 919-715-4645

Location: Adams Building/Dix Campus • 101 Blair Drive • Raleigh, NC 27603

Mailing Address: 2001 Mail Service Center • Raleigh, NC 27699-2001

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**STUDY POTENTIAL SAVINGS THROUGH THE PURCHASE OF
INSURANCE**

SESSION LAW 2013-360, SECTION 12H.12



**REPORT TO THE
JOINT LEGISLATIVE OVERSIGHT COMMITTEE ON HEALTH AND HUMAN
SERVICES**

BY

NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

April 1, 2014

EXECUTIVE SUMMARY

Session Law 2013-360 Section 12H.12 states, *"The Department of Health and Human Services shall study the opportunities for savings in overall State funding by purchasing health insurance for persons who are currently served by programs administered by the Department. The Department shall look broadly at all of its programs, including, but not limited to, Medicaid, AIDS Drug Assistance, and disability programs, for instances where purchasing private insurance for an individual may be less costly for the State than the current program serving the individual. The Department shall report on its findings to the Joint Legislative Oversight Committee on Health and Human Services no later than April 1, 2014."*

The purchase of private health insurance for individuals currently served by programs administered by the North Carolina Department of Health and Human Services has the potential to result in savings where the purchase is allowable and does not present barriers to access to health care and improved health outcomes for beneficiaries.

Opportunities for non-Medicaid potential savings by purchasing insurance include the HIV/AIDS Care Services—Aids Drug Assistance Program (ADAP) and for at least one health-related service within the public vocational rehabilitation and independent living programs for eligible individuals with disabilities. The HIV/AIDS Care service —Aids Drug Assistance Program (ADAP) has studied the potential for realizing savings if the program paid insurance premiums and cost sharing for all AIDS Drug Assistance Program (ADAP) pharmacy program clients. A pilot program may be needed to validate study, which was outlined in a separate report.

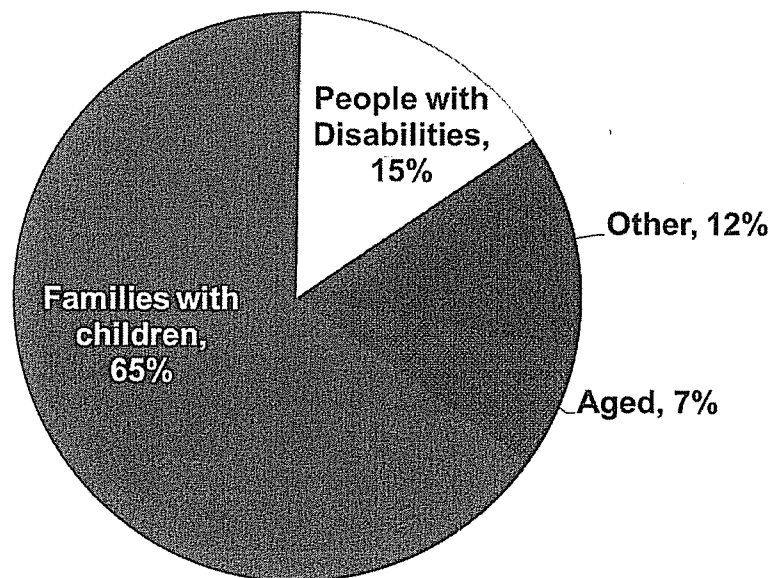
The Department of Health and Human Services found in its examination that the potential for purchasing insurance for individuals in lieu of paying directly for the services being provided in some programs and determined would result in no comparable insurance plan or at least one that could not be purchased at a cost effective rate. These include services focused on providing a key safety net system regarding access to affordable primary and specialty care services for low-income and uninsured adults in rural and geographically isolated areas.

The Department will continue to monitor and search for opportunities for cost savings as time progresses.

EXPLORING PRIVATE INSURANCE AS AN ALTERNATIVE TO MEDICAID COVERAGE FOR MEDICAID-ELIGIBLE INDIVIDUALS

The North Carolina Department of Health and Human Services provides public health insurance coverage to roughly 1.7 million beneficiaries, including children from birth through age 20, families with children, pregnant women, certain women diagnosed with breast or cervical cancer, and aged, blind, and disabled adults. Within broad federal guidelines, North Carolina establishes its own eligibility standards, determines the covered services, sets the payment rate for services, and administers its own program.

2013 NC MEDICAID ENROLLEES BY CATEGORY¹



North Carolina Medicaid annual funding totals approximately \$13 billion. G.S. 108A-54(a) authorizes the Division of Medical Assistance, DHHS to administer the North Carolina Medicaid program and says, "the State is responsible for the nonfederal share of the costs of medical services provided under the Program." The non-federal share of the Medicaid program is generally understood to be 35 cents for every dollar spent; though there are mechanisms in place that reduce the non-federal share. Since it is an entitlement program under Title XIX of the Social Security Act, when the State accepts federal matching funds, it agrees to enroll all eligible applicants for the program regardless of the amount of State funds available.

¹ Source: NC Division of Medical Assistance, DHHS

Existing Private Insurance Policies for Medicaid-eligible Enrollees

1. Third Party Payors

Medicaid beneficiaries are allowed to have third party health insurance in addition to Medicaid, and the Medicaid program pays any applicable claims balances remaining under those circumstances as the “payor of last resort.” The 2013 NC Appropriations Act codified this in General Statute 108A-55(e): “Medicaid is a secondary payor of claims. The Department shall apply Medicaid medical policy to recipients who have primary insurance other than Medicare, Medicare Advantage, and Medicaid. For recipients who have primary insurance other than Medicare, Medicare Advantage, or Medicaid, the Department shall pay the lesser of the Medicaid Allowable Amount or an amount up to the actual coinsurance or deductible or both of the primary payor, in accordance with the State Plan, as approved by the Department of Health and Human Services. The Department may disregard application of this policy in cases where application of the policy would adversely affect patient care.” Being a secondary payor in circumstances where beneficiaries have purchased or otherwise obtained additional medical insurance offers a savings to the State.

2. Health Insurance Premium Payment (HIPP) Program

The State has explored the purchase of private insurance for Medicaid beneficiaries in one program: the Health Insurance Premium Payment Program (HIPP). This program reimburses Medicaid beneficiaries for third party insurance premiums (e.g., premiums for employer sponsored health insurance, other private insurance, or Consolidated Omnibus Budget Reconciliation Act [COBRA] coverage) when it would be more cost effective for the State.

The eligibility criteria for HIPP are narrow: the beneficiary must have a high-cost illness such as cancer, end stage renal disease, chronic heart problems, or other chronic conditions that may have originated at birth. The average monthly enrollment in HIPP in State Fiscal Year 2013 was 1,316 individuals. The average premium reimbursement amount cost to the state per month per enrollee was \$377, with an additional \$18 per member per month (PMPM) management fee paid to a Division of Medical Assistance contractor.

The HIPP program may prove to continue to be a cost effective means for the State to save money by assisting Medicaid beneficiaries with high cost, chronic or terminal health conditions with the purchase of third party insurance premiums.

Challenges to Purchase of Private Insurance for Medicaid-eligible North Carolinians

1. Medicaid benefit coverage

One significant challenge in contemplating using State dollars to purchase private insurance for currently Medicaid-eligible individuals is the scope of coverage [“benefits”] available in the NC Medicaid program as compared to what may be available in individual private plans. Federal law allows for both mandatory and optional benefits coverage for Medicaid beneficiaries. North Carolina offers optional Medicaid benefits as legislated by the North Carolina General Assembly, including but not limited to: long term care; home and community based services; hospice care; ambulance services; specialized therapies; chiropractic services; and pharmacy services. Medicaid also covers long term care services and supports for older adults and individuals with intellectual and physical disabilities. This coverage is not readily found in the private health insurance market, and when it is available it is prohibitively expensive for low-income populations.

In addition to the mandatory and optional services described in the State Plan and available to all Medicaid beneficiaries who meet eligibility criteria described in the clinical coverage policies,² Medicaid beneficiaries from birth through age 20 are eligible for Early and Periodic Screening, Diagnosis and Treatment (EPSDT) services described at 42 U.S.C. 1396d(r).³ EPSDT services provide an additional opportunity for eligible Medicaid beneficiaries to obtain a service that is not listed in the State Plan (but it must be listed at 42 U.S.C. 1396a) or to exceed service limits set forth in clinical coverage policies.

Even if the State were to purchase private insurance for Medicaid-eligible children, the insurance coverage comparison across programs would be different. Private insurance plans only cover the benefits described within the four corners of a policy. The EPSDT benefit unique to the Medicaid program could not be purchased or matched in a private insurance policy. And the EPSDT-eligible population comprises the majority of Medicaid beneficiaries in North Carolina. In State Fiscal Year 2012, 1,158,192 children ages birth through age 20 (which comprised 68 percent of all NC Medicaid beneficiaries) were eligible for EPSDT services. The State paid \$926,469 in preventive services claims (e.g., excluding non-covered services) for EPSDT services in the same fiscal year.

To limit benefits provided, or by whom they are provided, the State would need to apply for a State Plan waiver through the Centers for Medicare and Medicaid Services (CMS).

2. Cost sharing

An additional challenge to purchasing equivalent private insurance coverage for Medicaid-eligible individuals is that the federal public assistance program exempts many covered benefits from cost sharing (e.g., co-payments at the time of a visit to a

² For all Medicaid coverage policies, see <http://www.ncdhhs.gov/dma/mp/index.htm>.

³ For more information see <http://www.ncdhhs.gov/dma/epsdt/epsdtpolicyinstructions.pdf>.

provider), and cost sharing for beneficiaries is nominal when it is required (e.g., \$3.00 per visit).

If the State purchases insurance for Medicaid-eligible individuals, it cannot prevent the low income, Medicaid-eligible population from paying higher cost sharing in the private insurance market. For example, the primary care provider office visit co-pay for a State employee enrolled in the 80/20 private insurance available is \$30 (a specialist visit co-pay is \$70). Private plans may also have additional deductibles that individuals have to meet in the hundreds or thousands of dollars. Medicaid does not charge beneficiaries any premiums or deductibles; only nominal co-payments. If the State covers the premium cost of private insurance for Medicaid-eligible individuals, the cost sharing per individual or per family insured on a private plan may be prohibitively expensive or may be impermissible under federal law.

Finding an insurance plan that would be comparable in coverage and cost sharing in the private market would be impossible, as the scope, duration and coverage of the Medicaid benefit is more comprehensive than private insurance plans. It would also be cost-prohibitive.

EXPLORING THE PURCHASE OF PRIVATE INSURANCE AS AN ALTERNATIVE TO OTHER DHHS PROGRAMS FOR ELIGIBLE INDIVIDUALS

Individuals with and without private insurance may access health care services through the NC Department of Health and Human Services outside of the Medicaid program, including through local public health departments, rural health centers, State-funded mental health services, vocational and rehabilitative services, and other safety net providers. The Department has analyzed alternatives to State-funded programs and the purchase of private insurance.

1. Medicaid Options

Three states are using Medicaid expansion as a means to purchase private health insurance for newly Medicaid-eligible beneficiaries through waivers of federal Medicaid law:

- Arkansas is expanding its Medicaid program through an 1115 waiver, the Arkansas Health Care Independence Program. This waiver will allow the state to implement Medicaid expansion through a premium assistance model by using federal Medicaid funds to purchase coverage through qualified health plans (QHPs).
- Iowa is expanding through the Iowa Health and Wellness Plan, which required two 1115 waivers. The waivers allow the state to implement Medicaid expansion through a premium assistance model and provide a medical home model. Both plans have premiums based on income level beginning in the

second year of the demonstration, while cost sharing cannot exceed 5% of the beneficiary's annual income.

- Michigan is expanding its Medicaid program through an 1115 waiver, the Healthy Michigan program. Beneficiaries will participate in health savings accounts that can be used for required cost sharing payments. Total annual cost sharing cannot exceed 5% of the beneficiary's annual income, and cost sharing can be reduced if individuals participate in certain healthy behaviors and preventive care measures.

Like Arkansas, Iowa, and Michigan, North Carolina could consider the purchase of health insurance for individuals accessing other State-funded programs through Medicaid expansion and waivers for premium assistance. Cost savings may accrue to the State due to the significant federal funding for the expansion population, but analysis is unavailable at this time.

The foregoing is not a recommendation but an observation. Additional study is needed.

OTHER North Carolina Safety Net Programs

As mentioned earlier and detailed in a separate report, opportunities for non-Medicaid potential savings include the HIV/AIDS Care Services. The HIV/AIDS Care service has studied the potential for realizing savings if the program paid insurance premiums and cost sharing for all AIDS Drug Assistance Program (ADAP) pharmacy program clients.

In addition to the Division of Medical Assistance, health-related programs and services are provided in the Divisions of Vocational Rehabilitation Services and Services for the Blind, Deaf and Hard of Hearing, Mental Health, Developmental Disabilities and Substance Abuse Rural Health and Community Care and Public Health. The Department surveyed Divisions to determine by service or activity (1) if purchasing insurance is an option but would not create savings due to such barriers as federal, other statutory citations, or other factors (2) if purchasing insurance is an option that could potentially provide savings; (3) if so, what are the required implementation steps and/or (4) what is the assessment of potential savings. The findings to date indicate that no definitive savings can be determined. The Department will continue to monitor, as it does anyway, and search for opportunities for cost savings. Perhaps additional opportunities will be present as federal agencies clarify the options.