

STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER
GOVERNOR

KODY H. KINSLEY
SECRETARY

July 20, 2023

SENT VIA ELECTRONIC MAIL

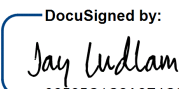
Mr. Brian Matteson, Director
Fiscal Research Division
Suite 619, Legislative Office Building
Raleigh, NC 27603-5925

Dear Director Matteson:

Session Law 2022-74, Section 9D.12, requires the Department of Health and Human Services, Division of Health Benefits, to submit an annual report to the Joint Legislative Oversight Committee on Medicaid and NC Health Choice and the Fiscal Research Division containing recommendations regarding adjustments to the per member per month (PMPM) capitation amount paid to local management entities/managed care organizations (LME/MCOs) operating BH IDD tailored plans. Pursuant to the provisions of law, the Department is pleased to submit the attached report.

Should you have any questions regarding this report, please contact Karen Wade, Director of Policy, at Karen.Wade@dhhs.nc.gov.

Sincerely,

DocuSigned by:
 on behalf of
06565C1C2A8F4C8...
Kody H. Kinsley
Secretary

cc:	Mark Collins	Joyce Jones	Lisa Wilks	Jessica Meed
	Theresa Matula	Katherine Restrepo	Amy Jo Johnson	Luke MacDonald
	Nathan Babcock	Francisco Celis Villagrana	Fred Aikens	Todd Barlow
	Darryl Childers	Melissa Roark	Marissa Doctrove	Tai Rochelle

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SECRETARY

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The Honorable Jim Perry, Chair
Joint Legislative Oversight Committee on
Medicaid and NC Health Choice
North Carolina General Assembly
Room 311, Legislative Office Building
Raleigh, NC 27603

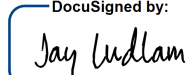
The Honorable Donny Lambeth, Chair
Joint Legislative Oversight Committee on
Medicaid and NC Health Choice
North Carolina General Assembly
Room 303, Legislative Office Building
Raleigh, NC 27603

Dear Chairmen:

Session Law 2022-74, Section 9D.12, requires the Department of Health and Human Services, Division of Health Benefits, to submit an annual report to the Joint Legislative Oversight Committee on Medicaid and NC Health Choice and the Fiscal Research Division containing recommendations regarding adjustments to the per member per month (PMPM) capitation amount paid to local management entities/managed care organizations (LME/MCOs) operating BH IDD tailored plans. Pursuant to the provisions of law, the Department is pleased to submit the attached report.

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**BH I/DD TAILORED PLAN PMPM ADJUSTMENT
RECOMMENDATIONS REGARDING WAGES
FOR DIRECT SUPPORT PERSONNEL**

Session Law 2022-74, Section 9D.12



Report to

Joint Legislative Oversight Committee on Medicaid and NC Health Choice

and

the Fiscal Research Division

By

North Carolina Department of Health and Human Services

July 20, 2023

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Background

Section 9D.12 of North Carolina Session Law 2022-74 requires the following:

Beginning March 1, 2023, and for five years thereafter, the Department of Health and Human Services, Division of Health Benefits (DHB), shall submit to the Joint Legislative Oversight Committee on Medicaid and NC Health Choice and the Fiscal Research Division a report containing recommendations regarding adjustments to the per member per month (PMPM) capitation amount paid to local management entities/managed care organizations (LME/MCOs) operating BH IDD tailored plans. The recommendations shall include adjustment amounts that are sufficient to increase the wages of direct support personnel who provide services to Medicaid beneficiaries residing in intermediate care facilities for individuals with intellectual disabilities (ICF/IIDs), including ICF/IID-level group homes, and Medicaid beneficiaries receiving services through the North Carolina Innovations waiver program. The report shall contain the costs associated with any recommended adjustments to the PMPM capitation amount. DHB shall take the following into account when making the recommendations:

- 1) Wages of direct support personnel working at the State developmental centers, with the goal of aligning the wages of direct support personnel regardless of place of employment.
- 2) Actuarial soundness requirements for capitation rates.
- 3) Assurance of continued safe and effective provision of services to Medicaid beneficiaries residing in ICF/IIDs or receiving services through the North Carolina Innovations waiver program.
- 4) Input from stakeholders, including the acceptance of data from knowledgeable trade organizations that supports the validation of any recommended adjustment to the PMPM capitation amounts.

This report addresses the reporting requirements by summarizing research and analysis performed regarding PMPM adjustments to BH I/DD tailored plan capitation rates that would support increases to the wage levels of direct support personnel across the I/DD service array. The report includes recommended changes to the PMPM and the estimated fiscal impact of those changes.

Estimated Wage Information for Direct Support Personnel

Estimated Wage of Direct Support Personnel working at the State Developmental Centers: The Division of Health Benefits (DHB) received information in December 2022 from Division of State Operated HealthCare Facilities (DSOHF) that estimated a typical wage of \$15.00 per hour for direct support personnel working at State Developmental Centers. DSOHF indicated that this wage level aligns with required minimum wage levels for State employees.

Estimated Wage of Direct Support Personnel Delivering I/DD Services through the Innovations Waiver and Privately Operated Intermediate Care Facilities (ICFs): DHB received a report in December 2022, titled, “Direct Care Worker Rate Increase Request for Innovations Program” (hereinafter, “Trade Organization Report”). It was developed by the Developmental Disabilities Facilities Association, North Carolina Council on Developmental Disabilities and North Carolina Providers Council which are knowledgeable trade organizations familiar with the targeted services to be addressed here by DHB. The Trade Organization Report provided data that the average wages paid to direct support personnel providing Innovations waiver services in 2019 was approximately \$11.50 per hour. Additionally, DHB received information from the same trade organizations in March 2023, estimating that any increase to the fee schedule rates would need to include the wage increase plus an additional 25% to cover the associated employer-paid benefits and taxes associated with that wage change. DHB has not undertaken a detailed study to validate the 25% estimate but considers it a reasonable assumption for the purposes of this report.

In March 2022, DHB implemented fee schedule rate increases for a wide array of home and community-based services (HCBS) and privately operated ICFs with a goal of establishing a \$15.00 per hour wage for all direct support personnel. This increase included Innovations Waiver services and privately owned ICFs.

Based on available funding in March 2022, DHB was able to increase fee schedule rates \$2.16 per hour to support personnel wage increases and the associated benefits and taxes. Applying the 25% assumption for employer-paid benefits and taxes to the actual wage increases, leads to an assumed increase of \$1.62 per hour for wages from the fee schedule increases. Adding this amount of wage increase to the reported \$11.50 per hour average wage from the Trade Organization Report, results in the current effective wage after consideration for the March 2022 increases for direct support personnel of approximately \$13.12 per hour.

Targeted Wage Received from Knowledgeable Trade Organizations: The Trade Organization Report included a recommendation that, in order to address the competitive labor market for scarce direct care personnel, future funding needs to be sufficient to support a targeted wage level of at least \$18.00 per hour. The recommendation is three dollars higher than the \$15.00 per hour wage paid by DSOHF.

Fiscal Impact of Targeted Wage Increases

DHB estimated the fiscal impacts of increasing direct support personnel wages through corresponding provider rate increases for the Innovations waiver services and private ICF IID providers. The first step was to estimate the impact of increasing the wage from the current, estimated \$13.12 per hour up to the \$15.00 per hour minimum reported by DSOHF for State Developmental Center employees.

DHB performed an analysis to estimate the fiscal impact of increasing the fee schedule payment rates for Innovations waiver and privately-owned ICF service types. The total estimated federal and state costs associated with the \$1.88 per hour wage increase need to achieve DSOHF's \$15.00 per hour wage was \$93.3 million dollars annually in total computable funds (approximately \$30.1 million in state funds, given estimated federal matching percentage). The impact of increasing the direct support personnel wage from \$13.12 per hour to \$15.00 per hour was estimated to increase each fee schedule rate by \$2.51 per hour. This amount includes the increase in wages and the estimated 25% needed for employer-paid costs for associated benefits and taxes. Table 1 below summarizes the estimated impact by service category and divides the estimate between federal and state expenditures.

Table 1: Estimated Annual Costs to Increase Wages to \$15 per hour

Service Category	Estimated Total Computable Costs	Estimated State Costs	Estimated Federal Costs
Innovations Waiver Services	\$77.5 million	\$25.0 million	\$52.5 million
Privately-owned ICF Services	\$15.7 million	\$5.1 million	\$10.6 million
Total	\$93.3 million	\$30.1 million	\$63.1 million

Additionally, DHB performed an analysis of the potential costs to increase the direct support personnel wage from the estimated \$13.12 per hour up to the targeted \$18.00 per hour wage recommended in the Trade Organization Report. DHB estimated the fiscal impact of increasing the fee schedule payment rates for Innovations waiver and privately-owned ICF service types. The total estimated federal and state costs associated with this \$4.88 per hour wage increase up to \$18.00 per hour was \$242.1 million dollars annually in total computable funds (approximately \$78.2 million in state funds, given estimated federal matching percentage). The impact of increasing the direct support personnel wage from \$13.12 per hour to \$18.00 per

hour was estimated to increase each fee schedule rate by \$6.51 per hour. This amount includes the increase in wages and the estimated 25% needed for employer-paid costs for associated benefits and taxes. Table 2 below summarizes the estimated impact by service category and divides the estimate between federal and state expenditures.

Table 2: Estimated Annual Costs to Increase Wages to \$18 per hour

Service Category	Estimated Total Computable Costs	Estimated State Costs	Estimated Federal Costs
Innovations Waiver Services	\$201.3 million	\$65.0 million	\$136.3 million
Privately-owned ICF Services	\$40.8 million	\$13.2 million	\$27.6 million
Total	\$242.1 million	\$78.2 million	\$163.9 million

The analyses above rely on historical claims information for the Innovations and private ICF/IID services from calendar year 2019. Utilization and claims from this time period were used in order to capture a full utilization base and avoid under-representing the service utilization as due to changes in individual behaviors and provider closures associated with the COVID-19 pandemic. The calendar year 2019 utilization and claims information for the Innovations waiver was grossed up by approximately 7.61% to reflect DHB's increase of 1,000 Innovations waiver slots between state fiscal years 2022 and 2023. Additionally, DHB relied on CY 2019 claims information to align with the methodology used to calculate the fee schedule increases put forth in March 2022, as discussed above.

Finally, most of the Innovations waiver and privately owned ICF services are paid based on units of service that are not hourly (e.g., the unit of service definition for many impacted services is per 15-minutes or per diem). Therefore, assumptions were necessary to allocate the hourly increases according to the applicable unit of service. A full list of the services, assumptions relied on for this analysis and estimated impacts are provided in Appendices 1 and 2.

DHB Recommendations

To meet the directive of SL 2022-74, Section 9D.12, DHB recommends **a state appropriations increase of \$78.2 million** (funding \$242.1 million total computable dollars added to provider rates) to the NC Medicaid budget for rate increases that support direct support personnel wage increases in private ICF and Innovations waiver services. This amount is required to increase the capitation rates paid to the local management entities operating the BH IDD tailored plan and Medicaid Direct BH programs to a level that is sufficient to fund increasing direct support personnel wages to approximately \$18.00 per hour. As described in the tables above, the \$78.2 million of increased appropriations breaks out as follows:

- **\$30.1 million in state funding** (providing \$93.3 million of total computable funding) be added to the NC Medicaid budget to increase the capitation rates paid to the local management entities operating the BH IDD tailored plan and Medicaid Direct BH programs to level that is sufficient to provide funding to increase direct support personnel wages from \$13.12 to \$15.00 per hour and create wage parity between the Innovations waiver, privately owned ICF and State Developmental Center workforce.
- **\$48.1 million in state funding** (providing \$148.8 million of additional total computable funding) be added, to move Innovations and ICF wages from \$15.00 to \$18.00 per hour as noted in the Trade

Organization Report. Note that this would create disparity between the private and state-operated ICFs, which would still only be funded at a level supporting wages of approximately \$15.00 per hour.

It is critical that when evaluating wage increases and labor markets for the direct support personnel delivering Innovations and ICF services that the State also consider other Medicaid services that may draw from a similar workforce. Direct support personnel also provide services through North Carolina's community alternatives program (CAP) waivers, personal care and home health services via North Carolina's Medicaid State Plan, and state-operated facilities. It is imperative to consider wage parity across the broader direct care environment to avoid putting undue pressure on any particular service or provider type within the Medicaid continuum.

Limitations

The DHB analyses supporting this report were performed by Mercer Government Human Services Consulting (Mercer) on behalf of DHB for purposes of estimating the potential impact of increasing direct care wages for select service types. These estimates were developed under the direction of Mercer actuaries Fallon Harrell, FSA MAAA and Bob Karsten, ASA MAAA who are members of the American Academy of Actuaries and meet its US Qualification Standards for issuing statements of actuarial opinion.

Mercer's estimates are based on the information available at a point in time and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely range of variability from the estimate. Any estimate or projection may not be used or relied upon by any other party or for any other purpose than for which it was issued by Mercer. Mercer is not responsible for the consequences of any unauthorized use.

Appendix 1 – Impact of Increasing Wages to \$15 per hour

Procedure Code	Service Description	Calendar Year 2019 Units ¹	Calendar 2019 Claims Dollars ¹	Estimated Increase Per Unit	Total Estimated Impact
T1005 TD, T1005 TE	Respite Care In-Home Nurse - RN or LPN level	116,299	\$ 1,108,755	\$0.63	\$ 72,881
H2025, H2025 TS	Supported Employment Services - Individual	2,470,431	\$ 18,531,488	\$0.63	\$ 1,548,137
H2025 HQ, H2025 TS HQ	Supported Employment Services - Group	21,250	\$ 40,645	\$0.31	\$ 6,658
S5150	Respite - In-Home Aide	7,456,403	\$ 27,903,047	\$0.63	\$ 4,672,679
S5150 HQ	Respite Care - Community Group	172,223	\$ 475,918	\$0.31	\$ 53,963
S5150 US	Respite Care - Institutional	790	\$ 224,651	\$13.37	\$ 10,560
T2013 TF, T2012, T2012 GC	Community Living and Supports Individual	64,926,854	\$338,385,358	\$0.63	\$ 40,687,495
T2013 TF HQ, T2012 HQ, T2012 GC HQ	Community Living and Supports Group	365,618	\$ 1,150,971	\$0.42	\$ 152,747
T2014	Residential Supports Level 2	332,009	\$ 44,146,827	\$16.04	\$ 5,326,317
T2020	Residential Supports Level 3	608,706	\$ 93,526,563	\$16.04	\$ 9,765,261
T2021	Day Supports - Individual	4,092,757	\$103,469,718	\$2.51	\$ 10,259,178
T2021 HQ	Day Supports - Group	2,465,058	\$ 37,393,544	\$0.84	\$ 2,059,693
T2027	Day Supports - Developmental Day	26,933	\$ 660,397	\$2.51	\$ 67,512
T2033	Supported Living	27,765	\$ 4,278,080	\$20.05	\$ 556,778
T2033 HI	Supported Living - Level 2	30,740	\$ 5,702,062	\$40.11	\$ 1,232,891
T2033 TF	Supported Living - Level 3	17,804	\$ 4,141,617	\$60.16	\$ 1,071,108
T2033 U1	Supported Living Periodic	736	\$ 3,467	\$0.63	\$ 461
N/A	Private ICF Facilities	979,532	\$ 300,065,432	\$16.04	\$ 15,714,305

¹ Reflects an assumed increase of 7.61% compared to historical CY 2019 experience based on the additional 1,000 Innovations waiver slots approved by DHB for SFY 2022 and SFY 2023.

Appendix 2 – Impact of Increasing Wages to \$18 per hour

Procedure Code	Service Description	Calendar Year 2019 Units ²	Calendar 2019 Claims Dollars ²	Estimated Increase Per Unit	Total Estimated Impact
T1005 TD, T1005 TE	Respite Care In-Home Nurse - RN or LPN level	116,299	\$ 1,108,755	\$1.63	\$ 189,180
H2025, H2025 TS	Supported Employment Services - Individual	2,470,431	\$ 18,531,488	\$1.63	\$ 4,018,568
H2025 HQ, H2025 TS HQ	Supported Employment Services - Group	21,250	\$ 40,645	\$0.81	\$ 17,283
S5150	Respite - In-Home Aide	7,456,403	\$ 27,903,047	\$1.63	\$ 12,129,081
S5150 HQ	Respite Care - Community Group	172,223	\$ 475,918	\$0.81	\$ 140,074
S5150 US	Respite Care - Institutional	790	\$ 224,651	\$34.70	\$ 27,410
T2013 TF, T2012, T2012 GC	Community Living and Supports Individual	64,926,854	\$338,385,358	\$1.63	\$ 105,614,349
T2013 TF HQ, T2012 HQ, T2012 GC HQ	Community Living and Supports Group	365,618	\$ 1,150,971	\$1.08	\$ 396,492
T2014	Residential Supports Level 2	332,009	\$ 44,146,827	\$41.64	\$ 13,825,760
T2020	Residential Supports Level 3	608,706	\$ 93,526,563	\$41.64	\$ 25,348,123
T2021	Day Supports - Individual	4,092,757	\$103,469,718	\$6.51	\$ 26,630,207
T2021 HQ	Day Supports - Group	2,465,058	\$ 37,393,544	\$2.17	\$ 5,346,437
T2027	Day Supports - Developmental Day	26,933	\$ 660,397	\$6.51	\$ 175,244
T2033	Supported Living	27,765	\$ 4,278,080	\$52.05	\$ 1,445,253
T2033 HI	Supported Living - Level 2	30,740	\$ 5,702,062	\$104.11	\$ 3,200,271
T2033 TF	Supported Living - Level 3	17,804	\$ 4,141,617	\$156.16	\$ 2,780,323
T2033 U1	Supported Living Periodic	736	\$ 3,467	\$1.63	\$ 1,197
N/A	Private ICF Facilities	979,532	\$ 300,065,432	\$41.64	\$ 40,790,325

² Reflects an assumed increase of 7.61% compared to historical CY 2019 experience based on the additional 1,000 Innovations waiver slots approved by DHB for SFY 2022 and SFY 2023.