BH/IDD 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

the Fiscal Research Division

by

North Carolina Department of Health and Human Services

November 19, 2026

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 behavioral health/intellectual or developmental disabilities (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:
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> 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 is the fourth of the six annual reports. It summarizes the following:

1. DHB's 2023 PMPM recommendation, as indicated in the 2023 Report.
2. The subsequent funding and provisions set forth by the General Assembly in S.L. 2023-134.
3. Distribution of the State Fiscal Year (SFY) 2024 funding.
4. The estimated remaining need for increased funding in SFY 2027 to meet the directives of S.L. 2022-74, Section 9D.12.

DHB 2023 PMPM Recommendation for Innovations and Private ICF Wage Increases

To meet the directive of SL 2022-74, Section 9D.12, DHB recommended a State appropriations increase of $78.06 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 (DSP) wage increases in private ICF/IIDs and Innovations waiver services. This estimated amount was 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 would be sufficient to fund increasing DSP wages to approximately $18.00 per hour. The $78.06 million increased appropriations breaks out as follows:

> **Innovations:** $64.9 million in State funding ($201.3 million total computable) would target DSPs operating under the Innovations Waiver and would support increases in capitation rates and directed payments sufficient to elevate those workers' wages to the legislative benchmark of $18 per hour.
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> **ICF/IID:** $13.16 million in State funding ($40.8 million total computable) would target DSPs working in private ICF/IIDs and would support increases in capitation rates and directed payments sufficient to also elevate those workers' wages to the legislative benchmark of $18 per hour. However, even with full funding, DSP in *State*-operated ICF/IID would only be supported to $15 per hour. This disparity indicates that the proposed funding structure does not meet the statute's intent to achieve wage alignment across provider types.

Additional Funding for Innovations Waiver Provider Rate Increases in S.L. 2023-134

The NC General Assembly appropriated $60 million in recurring State appropriations (supporting $176 million in total computable dollars added to provider rates) in the Current Operations Appropriations Act of 2023 (Committee Report page C60, item 111; SL 2023-134, Section 9E.15) to raise NC Medicaid Innovations waiver services rates so that Innovations waiver services providers could in turn raise the hourly wages of the DSPs they employ. The legislation did not include an increase in funding for ICF/IIDs.

Though the legislation did not specify an amount or percentage of the rate increase that was required to be passed through to Innovations waiver services DSP wage increases, the General Assembly stated an intention of increasing the average hourly wage for DSPs in Innovations services by $6.50 per hour to move those workers to an average wage of $18.00/hr. The funding appropriated for State Fiscal Year (SFY) 2024 did not fund this large of a wage increase, but it did support significant movement in that direction.

Distribution of the SFY 2024 Funding for Innovations Waiver Provider Rate Increases

Based on historical data regarding number of providers and units of services delivered by Innovations waiver services DSPs, DHB determined that the $176 million in total recurring funding would support a uniform per unit increase of $1.13 per 15-minute increment of service, subject to proportional adjustment for services not funded in 15-minute service units. These rate increases were effective July 1, 2023, and were retroactively adjusted in capitation rates for Local Management Entities/Managed Care Organizations (LME/MCOs). LME/MCOs were also contractually required to reprocess claims for dates of service on or after July 1, 2023, to ensure that providers receive the increased rates beginning on the effective date.

SFY 2027 DSP Wage Increase Funding Gap

The following table shows the difference between DHB's FY 2023 PMPM recommendations and the total appropriated funding for Innovations waiver services DSP wage increases set forth in SL 2023-134. To continue raising Innovations waiver services and ICF/IIDs DSP wages to an estimated average of $18.00/hour, the General Assembly would need to fund approximately $35.4 million ($101.5 million total computable) in additional recurring appropriations specifically targeted to wage increases for DSPs in Innovations waiver services and ICF/IIDs. This funding gap has widened since the previous report due to year-on-year increases in utilization and enrollment in Tailored Plans and Medicaid Direct, as well as inflation and other market factors.

Service Category	Department's 2023 Recommendation	SL 2023-134 Appropriated	Funding Gap Based on 2027 Utilization and Enrollment (State Share)[1]	Total Computable 2023 Funding Gap	Total Computable 2027 Funding Gap[2]
Innovations	$201.3 million	$176 million	$15.4 million	$25.3 million	$44.2 million
ICF/IID	$40.8 million	$0	$20.0 million	$40.8 million	$57.3 million
TOTAL	$242.1 million	$176 million	$35.4 million	$66.1 million	$101.5 million

It should be noted that increasing funding aimed at raising wages only for DSPs employed by Innovations waiver services and private ICF/IID providers would likely create wage disparities between these DSPs and those employed by other Medicaid providers (particularly home and community-based service or "HCBS" providers) whose reimbursement rates have not received the same increases. DSPs also provide services through North Carolina's community alternatives program (CAP) waivers, personal care and home health services via North Carolina's Medicaid

[1] Based on 65.06% FMAP

[2] Assumes current wage of $17.48 for Innovations and $15.24 for private ICF/IID services. Values are based on achieving total wage of $18.00 for both service types and utilization and enrollment estimates are leveraged from SFY 2027 Tailored Plan and Medicaid Direct capitation rate development processes as documented in Rate Books dated March 23, 2026. Note that these figures exclude long-term residential and day supports which were historically provided as an ICF in lieu of service.

State Plan, and State-operated facilities. It is imperative that the General Assembly consider promoting wage parity across the broader direct care environment to avoid putting undue recruitment and retention pressure on any particular service or provider type within the Medicaid continuum.

Additionally, funding intended to support closing of the DSP hourly rate gap must be supported legislatively with operational and enforcement guidelines that providers and health plans receiving program rate increases must adhere to. This legislative support ensures DSPs meaningfully benefit from the funding to support rate increases. DHB will need flexibility to implement reporting requirements and recoupment measures against providers and health plans that do not comply with the intent of the appropriated funds.

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 actuary Bob Karsten, ASA MAAA who is a member of the American Academy of Actuaries and meets 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 A: Session Law 2022-74, Section 9D.12

BH/IDD TAILORED PLAN PMPM ADJUSTMENT RECOMMENDATIONS

SECTION 9D.12. 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. House Bill 103 Session Law 2022-74 Page 75
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.