Medicaid Rebase Tracking, Transparency, and Predictability

Session Law 2023-134, Section 9E.8.(b)

Report to

Joint Legislative Oversight Committee on Medicaid

Office of State Budget and Management
and

Fiscal Research Division

By

North Carolina Department of Health and Human Services

August 19, 2025

Contents

Background

Per Section 9E.8(b) of Session Law 2023-134, the Department of Health and Human Services, Division of Health Benefits (DHB), shall, on a prescribed schedule beginning November 1, 2023, report to the Office of State Budget Management, the Joint Legislative Oversight Committee on Medicaid, and the Fiscal Research Division on the following information:

1. For the initial report, Medicaid enrollment projections for the 2023-2025 fiscal biennium. For each subsequent report, the actual enrollment relative to those projections.

2. The year-to-date General Fund expenditures for Medicaid through the most recent month for which there is complete data.

3. Projections on Medicaid General Fund expenditures needed for the remaining months in the 2023-2025 fiscal biennium.

4. Any Medicaid-related budget challenges identified by DHB for the 2023-2025 fiscal biennium and the 2025-2027 fiscal biennium, and the estimated cost related to those challenges. Challenges that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.

5. Changes to the Medicaid program that are planned to be implemented at any time in the future under the authority granted under G.S. 108A-54(e)(1), the predicted impact of those changes to the Medicaid budget for the 2023-2025 fiscal biennium and the 2025-2027 fiscal biennium, and the anticipated implementation timeline for those changes. Planned changes that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.

6. Changes to the Medicaid program required under federal or State law that will be implemented, the predicted impact of those changes to the Medicaid budget for the 2023-2025 fiscal biennium and the 2025-2027 fiscal biennium, and the anticipated implementation timeline for those changes. Changes that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.

7. Any unanticipated costs to the Medicaid program that were not accounted for in either the model used to create Governor Cooper's Recommended Budget for the 2023-2025 fiscal biennium, or the projection contained in any prior report submitted under this section. Any unanticipated costs that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.

8. The amount, if any, of funds DHB is requesting to be transferred out of the Medicaid Contingency Reserve, as established under G.S. 143C-4-11, and as much information as possible that meets the requirements under G.S. 143C-4-11(b)(3).

Report Findings

1. Medicaid Non-Expansion Enrollment Projections for the 2023 – 2025 Biennium

NC Medicaid (Division of Health Benefits; DHB) works closely with the State Office of Budget & Management (OSBM) to forecast enrollment for the Medicaid program (including former NC Health Choice program members who were merged with Medicaid[1]). In advance of each State Fiscal Biennium, DHB uses this DHB-OSBM consensus Medicaid enrollment forecast as a main foundation to build the Rebased Budget ("Rebase") model for services provided to Medicaid members. The Rebase cost is primarily driven by the product of forecasted enrollment (by eligibility category) and projected average costs per member (by eligibility type or capitation rate cell) and is the cornerstone of the Governor's Recommended Biennial Budget for DHB.

The enrollment forecast used to create the Rebase for SFY 2025 is characterized by the following notable features:

1) The Continuous Coverage Unwinding (CCU) that began on July 1, 2023, marked a steady decline in non-expansion enrollment, particularly non-disabled adults. The rate of decline was slower in SFY 2024 than projected, however, due to county social services offices' operational capacity and the volume of redeterminations faced by some counties, leading enrollment on July 1, 2024, to be higher than the original biennial projection. The updated projection for CCU-related enrollment decline across SFY 2025 benefits from a year's worth of experience regarding county redetermination operations and therefore should be more accurate than the original projection. There is still a great deal of uncertainty, however, as many variables (i.e., county workforce, monthly redetermination capacity, impact of Hurricane Helene) will contribute to the actual monthly decline in enrollment over the remaining SFY 2025.

2) Medicaid enrollment in the current fiscal year is characterized by continuing extended enrollment of children (through federal "e14" flexibility), but this non-redetermination of children has, as expected, allowed the counties to focus on the adult population, leading to higher rates of redetermination and disenrollment of non-disabled adults than expected for SFY 2025. This dynamic has the net effect of reducing costs to the Medicaid program (since the Per Member Per Month cost for adults is approximately 2.5 times that for children), as compared to a scenario in which the e14 flexibility was not in place in NC.

3) Historically, Non-Expansion Medicaid enrollment has remained elevated for up to two years following significant economic shocks, such as recessions. Following that same trend, non-expansion enrollment is not projected to return to pre-COVID levels during the SFY2023-2025 biennium even after unwinding is complete.

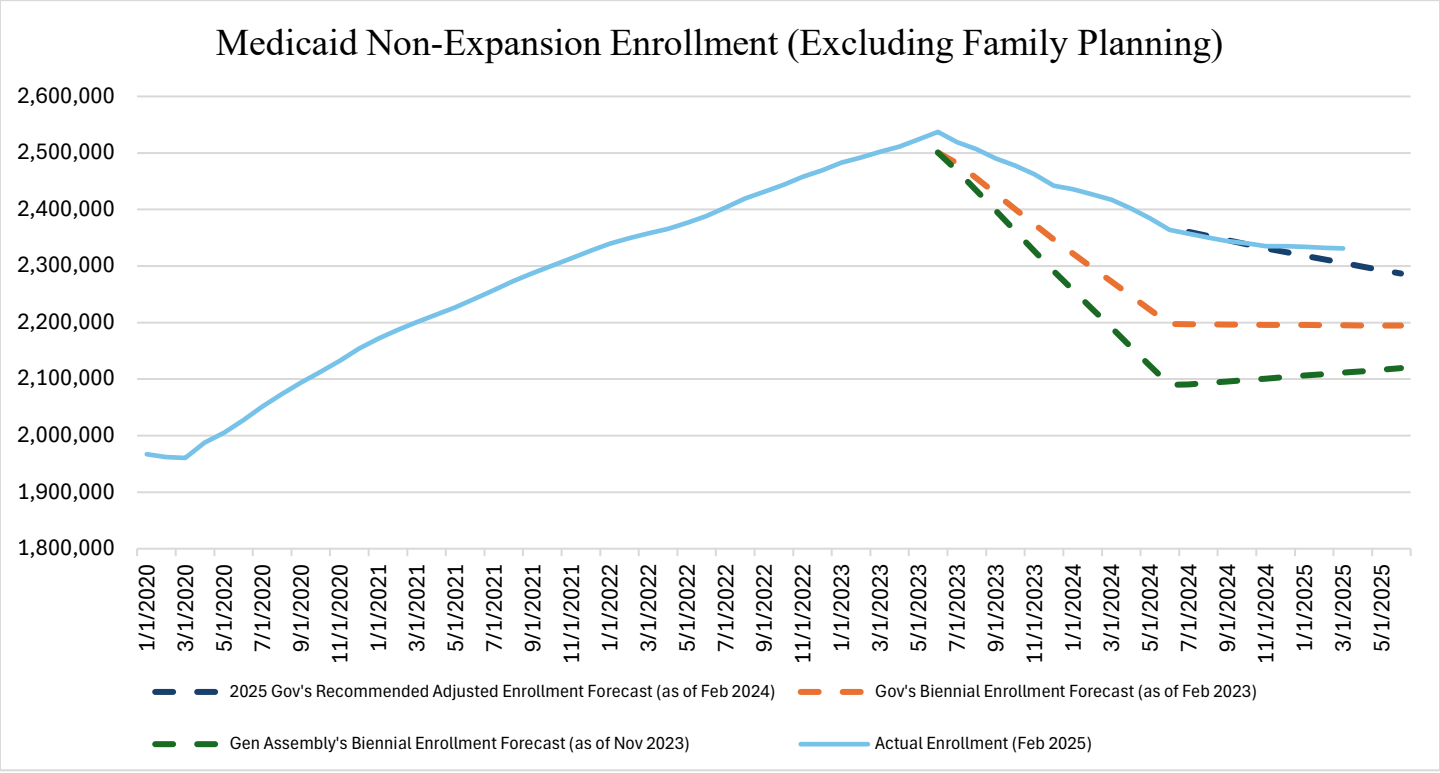
4) **Medicaid Expansion enrollment is not included** in the Rebase forecast or expenditure model. DHB will refer to "Non-Expansion (Non-Exp)" and "Expansion (Exp)" enrollment in this and future reports. Since Medicaid Expansion did not launch until December 1, 2023, there is no Expansion Enrollment until that date. Expansion enrollment and expenditures will be tracked separately, as they do not use General Fund dollars.

[1] As of April 1, 2023, consistent with Section 15 of S.L. 2022-74 as amended by Section 3.2 of S.L. 2023-11.

The SFY 2025 Updated Governor's Recommended Rebase (item 9 on p. 147 of Governor's Recommended Budget Adjustments FY 2024-25) utilized an updated DHB-OSBM consensus enrollment forecast that took into account the actual experience from SFY 2024. Figure 1 illustrates this updated forecast, which is characterized by a more gradual decline than that original SFY 2025 Governor's forecast that was created in February 2023 in the run up to the SFY 2023-2025 biennium. This more gradual decline (i.e., a slower pace of redeterminations and disenrollments) reflects the expectation, based on experience to date, that the CCU will take longer to complete and therefore, the initial and average enrollment in SFY 2025 will be higher than originally forecast in the Governor's Recommended Biennial Budget.

Figure 1, "Total Non-Expansion Medicaid Enrollment SFY 2020-2025," illustrates the Governor's Rebase enrollment forecast for SFY 2025, contrasted with the actual enrollment (excluding Family Planning enrollees) observed from January 2020 through-January 2025, and the 2023-25 biennial forecasts from the original two-year Governor's and General Assembly's versions of the Medicaid Rebase. The actual total enrollment through January 2025 is tracking very close to the SFY 2025 updated projection line. Within this total enrollment trend, the adult enrollment is slightly lower than projected because the CCU-related redetermination and disenrollment of non-disabled adults is indeed occurring more rapidly than was projected when the SFY 2025 forecast was constructed in February 2024. At the same time, offsetting that trend is child enrollment that is slightly higher than projected.

Figure 1: Total Non-Expansion Medicaid Enrollment (Excluding Family Planning) SFY 2020-2025

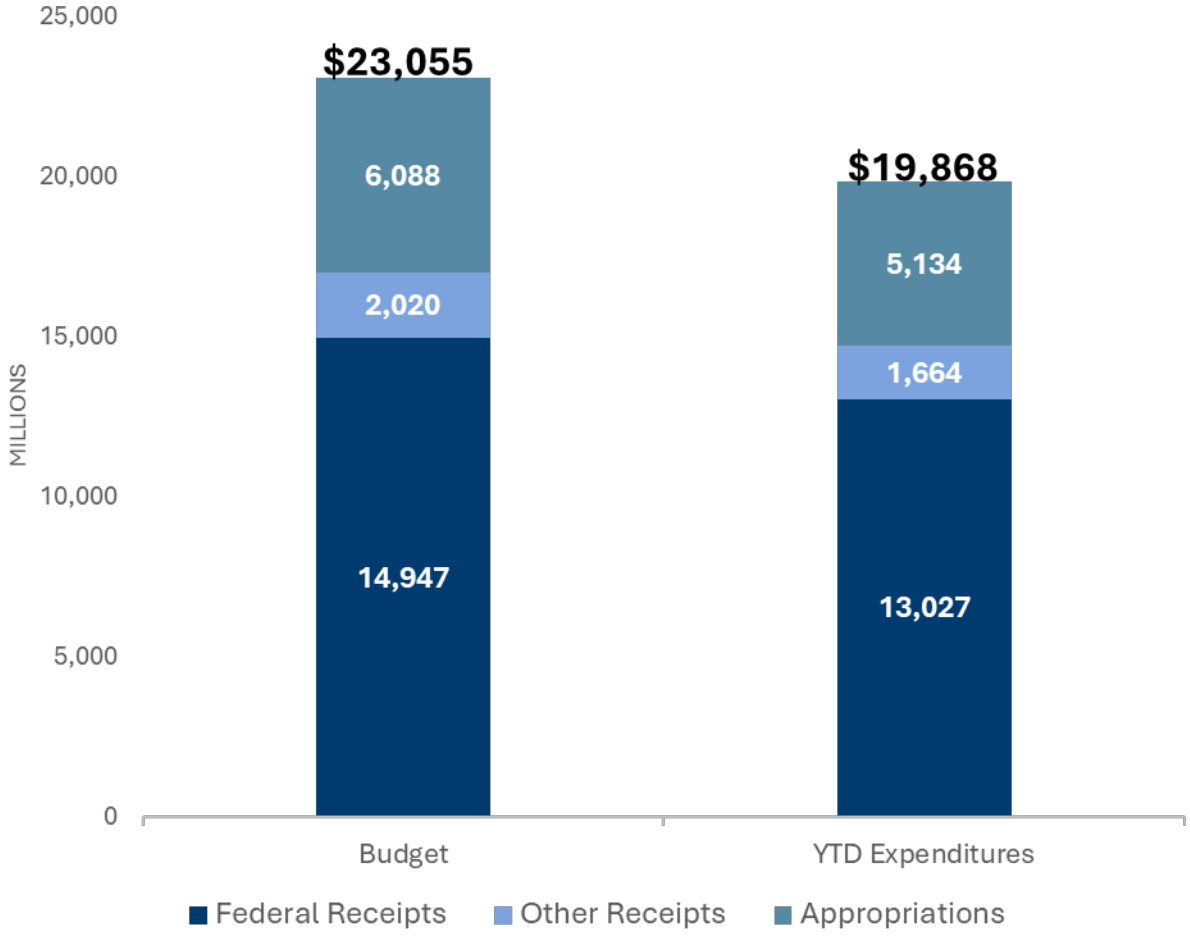


Data Sources: Medicaid Monthly Enrollment Reports; Months through January 2025 reflect actual cumulative (i.e., including retroactive) enrollment; February 2025 and March 2025 are based on estimated cumulative enrollment.

2. Year-to-Date General Fund Expenditures

The year-to-date (YTD) Medicaid expenditures, through the most recent month for which there is complete data, are summarized and compared to the SFY 2025 authorized budget in Figure 2 "Non-Expansion Medicaid Services: SFY 2025 Authorized Budget vs YTD Actual Expenditures through April 2025."

Figure 2: SFY 2025 Non-Expansion Authorized Budget v. Actual Expenditures through April 2025.

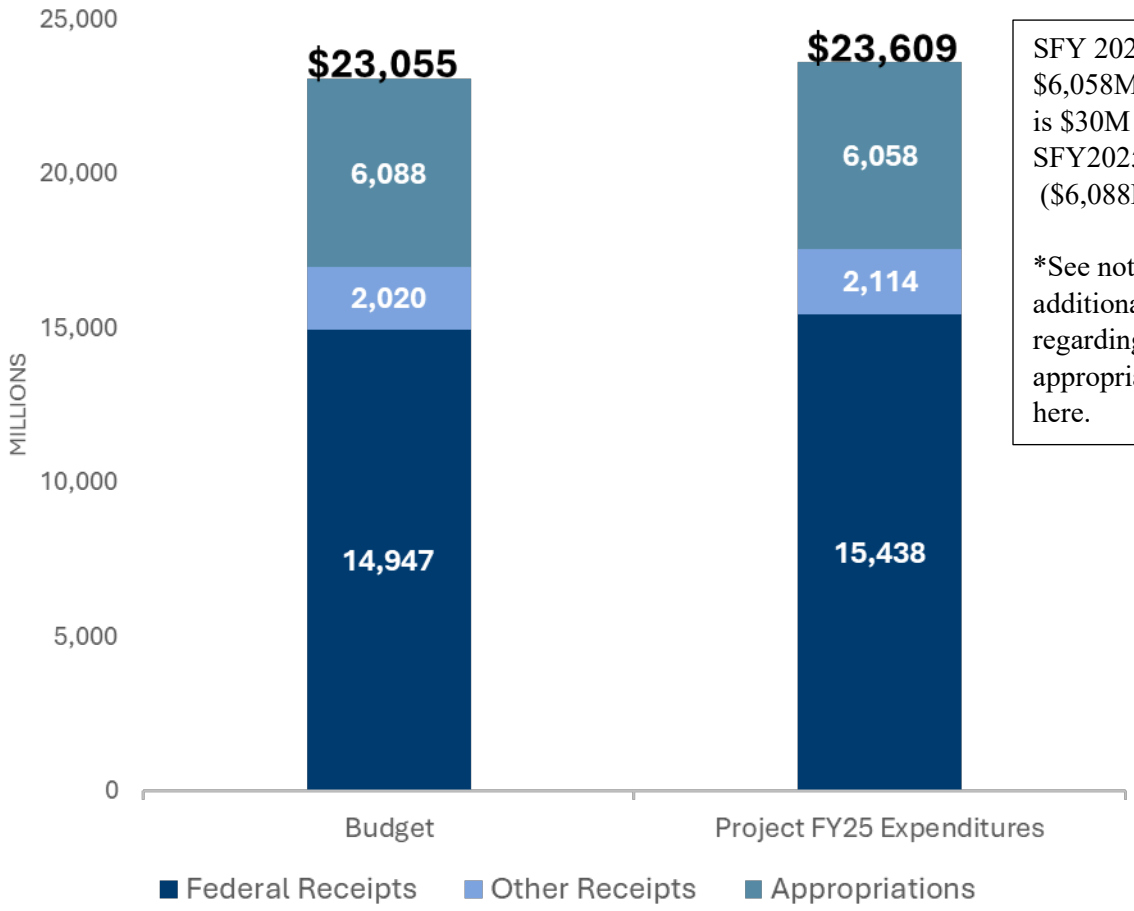


Source: SFY 2025 April BD701 Report. Excludes HASP, and Medicaid Expansion expenditures (which have no General Fund impact).

3. Projected General Fund Expenditures for State Fiscal Year (SFY) 2025

Figure 3 "NC Medicaid Projected Non-Expansion Expenditures," illustrates the updated projected Medicaid expenditures by fund source for the biennium. This forecast comes from the update of the Governor's Recommended Budget model that was used to inform the Medicaid Rebase item in the Governor's Recommended Budget Adjustments for FY 2024-25. This update uses an updated projection of enrollment and mid-year adjustments to capitation rates to project total expenditures for SFY 2025.

Figure 3: NC Medicaid Projected Non-Expansion Service Expenditures for SFY 2025



SFY 2025 projected spend of $6,058M state appropriations is $30M less than the SFY2025 authorized budget ($6,088M) *

*See notes below for additional information regarding how to interpret the appropriations spend shown here.

Source: Budget figures from SFY 2025 April BD701 Report. Projected Expenditures from updated Governor's Model Recommended Budget for SFY 2024-25. Neither sets of figures include HASP or Medicaid Expansion expenditures (which have no General Fund impact). The Projected Expenditures do not include the Child and Family Specialty Plan (which will not launch until SFY 2026). .

**Notes on Appropriations Spend: An estimated $34M of the Projected appropriations expenditures are for withheld capitation payments to Standard Plans that will be carried forward for payment in the next fiscal year based on actual performance in SFY 2025; therefore, in effect, the current year appropriations expenditures for services are $34M lower than shown in the chart.*

4. Budget Challenges Identified by NC Medicaid for SFY 2023-25 and 2025-27

As stated in the February 2025 edition of this report, Medicaid does not foresee significant challenges in staying within budget for services in SFY 2025 due to an increase in receipts and lower expenditures associated with the "e14" flexibilities and their effects noted in the Medicaid Non-Expansion Enrollment Projected for the 2025-2027 Biennium section of this report.

Challenges for SFY 2025-27 include the following:

1. There are significant changes to the Medicaid program recently passed by the US Congress at the time of this writing, which would have potentially significant implications on the SFY 2025-27 Medicaid

budget. For example, two specific provisions to increase the frequency of Medicaid eligibility determinations from annually to every six months and implementing work reporting requirements would both directly add costs to the state and county partners and have implications on future enrollment and budget projections. The unknown significance of these changes' full impact makes it difficult to move forward strategically in the best interest of beneficiaries.

2. Another scheduled decrease in federal match rate FMAP of 0.44 percentage points for FFY 2026, along with a projected scheduled decrease of 0.36 percentage points in FFY 2027, will lead to a higher state share of costs for the same services (i.e., even if all other factors were to remain the same).

3. Health care cost inflation results in annual increases in "per member per month" (PMPM) capitation rates for managed care, as does increases in service utilization and/or changes in the mix of services used. DHB is also evaluating the potential impact of new tariffs on the cost of healthcare goods and services. Emerging trends in increased utilization of specific treatments are also posing a potential future budget challenge.
    a. The LME-MCOs are experiencing significant utilization increases for Research Based Behavioral Health Therapy (RB-BHT), a service which prevents or minimizes the adverse impacts of Autism Spectrum Disorder. These trends are leading to higher than expected capitation rate increases for SFY 2026. This is a national trend and DHB is in the process of doing a deeper dive with other states experiencing the trend to understand the specific dynamics driving those service increases and whether adjustments to clinical coverage policy are warranted.
    b. Expanded coverage of GLP-1s, including for indications of obstructive sleep apnea, cardiovascular risk reduction and weight loss, are driving increases in pharmacy spend that will lead to higher than expected capitation rates for SFY 2026. While coverage of GLP-1s for weight loss indication is optional for states, **coverage for other indications approved by the FDA are required**. Obesity is a chronic, relapsing, and treatable disease affecting more than one in three North Carolinians. People with obesity are at higher risk for over 200 other chronic illnesses, including diabetes, heart disease, and many forms of cancer. Controlling the chronic disease of obesity helps to reduce more acute conditions from developing which are more expensive to treat, thereby reducing costs over time. While the investment in GLP-1s for weight loss may result in a slightly higher budget need in the short run, it is expected to reduce state Medicaid costs over time by keeping beneficiaries healthier.

4. Many providers have not had rate increases for over a decade. Low rates risk providers opting out of the Medicaid program, which decreases access for beneficiaries. While the General Assembly has helped to stabilize access to care by appropriating much needed recurring funding for rate increases to long term care providers (e.g., Skilled Nursing Facilities, Adult Care Homes, Personal Care Services, Community Alternatives Programs), Behavioral Health Services, and has supported both Facilities-based (e.g., Intermediate Care Facilities for Individuals with Intellectual and Developmental Disabilities/ICF-IDD) and Home and Community-Based Services (e.g., Home Health, Innovations Waiver) providers, many other provider types, such as Durable Medical Equipment (DME), Specialized Therapies (Speech-Language, Occupational, Physical), Dialysis, and Dental, have not received rate increases and are struggling to continue serving Medicaid members at reimbursement levels that have been stagnant since 2012-2015. Any potential rate increases would inherently add pressure in a revenue constrained environment.

5. Planned Program Changes under G.S.108A-54(e)(1) Authority

Other than the changes noted in the prior reports, NC Medicaid does not plan to make any additional program changes that would add materially to expenditures for SFY 2025.

6. Program Changes Required under State or Federal Law

1. **Coverage & Rate Adjustments for Substance Use Disorder (SUD) Services:** Adjustments to modernize SUD coverage and service rates will bring the Department in compliance with commitments made in the 1115 SUD Waiver in place since 2018. These changes are planned to be effective January 1, 2026.

2. **Rate Modifications for Obstetrics and Gynecology (OB/GYN):** Modest rate modifications are needed to meet the requirements of the Section 1115 demonstration.

7. Unanticipated Costs Not Accounted for in the Budget Model

Other than the items noted in the prior reports, NC Medicaid has not identified any other material unanticipated costs that were not projected in the Governor's Recommended Budget Adjustments for SFY 2024-25.

8. Requested Transfer of Medicaid Contingency Reserve

DHB is not requesting any Medicaid Contingency Reserve Funds at this time. However, the significant uncertainty at the federal level regarding changes to the Medicaid program underscore the need for a continued robust Medicaid Contingency Reserve fund in SFY 2025-27 to buffer against unexpected changes.

Appendix: Prior report submission (February 2025)

Report Findings

1. Medicaid Non-Expansion Enrollment Projections for the 2025 – 2027 Biennium

NC Medicaid (Division of Health Benefits; DHB) works closely with the State Office of Budget & Management (OSBM) to forecast enrollment for the Medicaid program (including former NC Health Choice program members who were merged with Medicaid [2]). In advance of each State Fiscal Biennium, DHB uses this DHB-OSBM consensus Medicaid enrollment forecast as a main foundation to build the Rebased Budget ("Rebase") model for services provided to Medicaid members. The Rebase cost is primarily driven by the product of forecasted enrollment (by eligibility category) and projected average costs per member (by eligibility type or capitation rate cell) and is the cornerstone of the Governor's Recommended Biennial Budget for DHB.

The enrollment forecast used to create the Rebase for SFY 2025 is characterized by the following notable features:

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2) Medicaid enrollment in the current fiscal year is characterized by continuing extended enrollment of children (through federal "e14" flexibility), but this non-redetermination of children has, as expected, allowed the counties to focus on the adult population, leading to higher rates of redetermination and disenrollment of non-disabled adults than originally expected. This dynamic has the net effect of reducing costs to the Medicaid program (since the Per Member Per Month cost for adults is approximately 2.5 times that for children), as compared to a scenario in which the e14 flexibility was not in place in NC.

3) Historically, Non-Expansion Medicaid enrollment has remained elevated for up to two years following significant economic shocks, such as recessions. Non-expansion enrollment is not projected to return to pre-COVID levels, even after unwinding is complete.

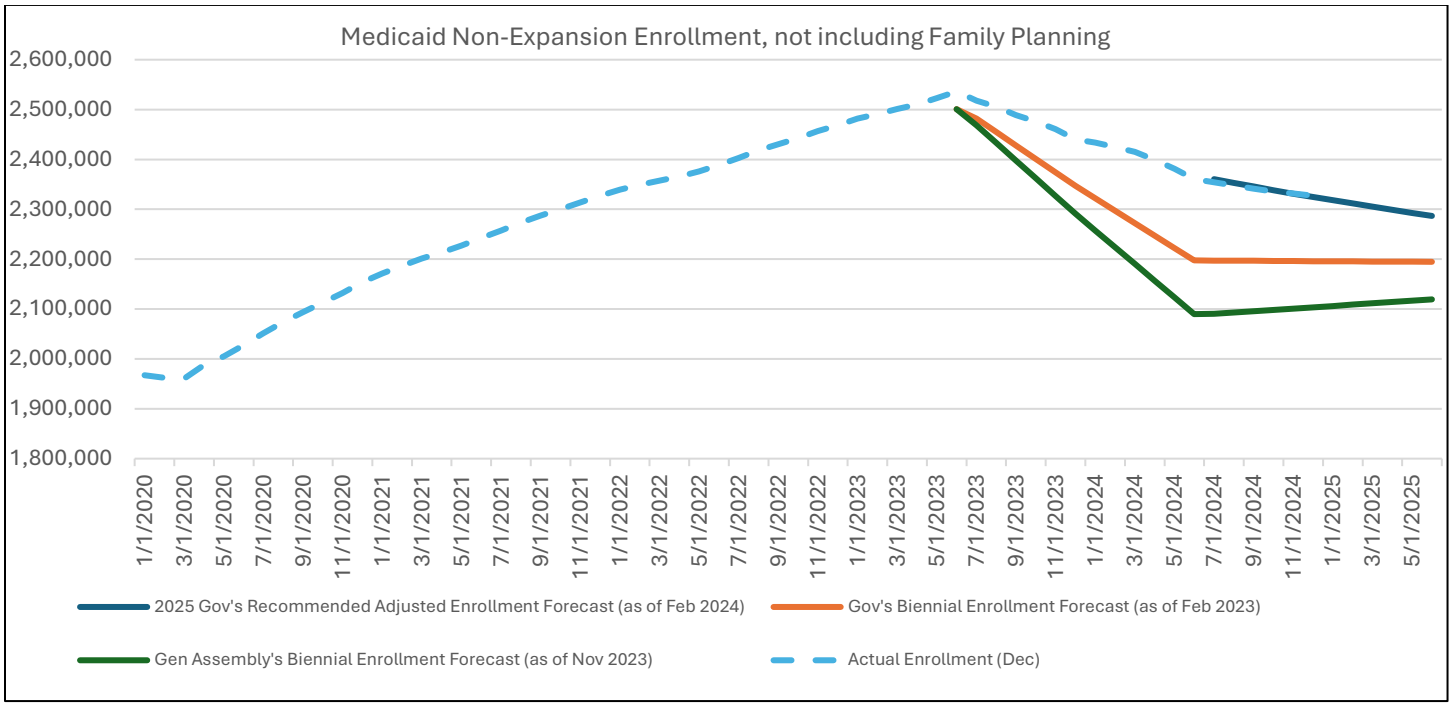
4) **Medicaid Expansion enrollment is not included** in the Rebase forecast or expenditure model. DHB will refer to "Non-Expansion (Non-Exp)" and "Expansion (Exp)" enrollment in this and future reports. Since Medicaid Expansion did not launch until December 1, 2023, there is no Expansion Enrollment until that date. Expansion enrollment and expenditures will be tracked separately, as they do not use General Fund dollars.

[2] As of April 1, 2023, consistent with Section 15 of S.L. 2022-74 as amended by Section 3.2 of S.L. 2023-11.

The SFY 2025 Updated Governor's Recommended Rebase (item 9 on p. 147 of Governor's Recommended Budget Adjustments FY 2024-25) utilized an updated DHB-OSBM consensus enrollment forecast that took into account the actual experience from SFY 2024. Figure 1 illustrates this updated forecast, which is characterized by a more gradual decline than that original SFY 2025 Governor's forecast that was created in February 2023 in the run up to the 2023-25 biennium. This more gradual decline (i.e., a slower pace of redeterminations and disenrollments) reflects the expectation, based on experience to date, that the CCU will take longer to complete and therefore, the initial and average enrollment in SFY 2025 will be higher than originally forecast in the Governor's Recommended Biennial Budget.

Figure 1, "Total Non-Expansion Medicaid Enrollment SFY 2020-2025," illustrates the Governor's Rebase enrollment forecast for SFY 2025, contrasted with the actual enrollment (excluding Family Planning enrollees) observed from January 2020 through-November 2024, and the 2023-25 biennial forecasts from the original two-year Governor's and General Assembly's versions of the Medicaid Rebase. The actual total enrollment through November 2024 is tracking below the SFY 2025 updated projection because the CCU-related redetermination and disenrollment of non-disabled adults is occurring more rapidly than was projected when the SFY 2025 forecast was constructed in February 2024.

Figure 1: Total Non-Expansion Medicaid Enrollment (Excluding Family Planning) SFY 2020-2025

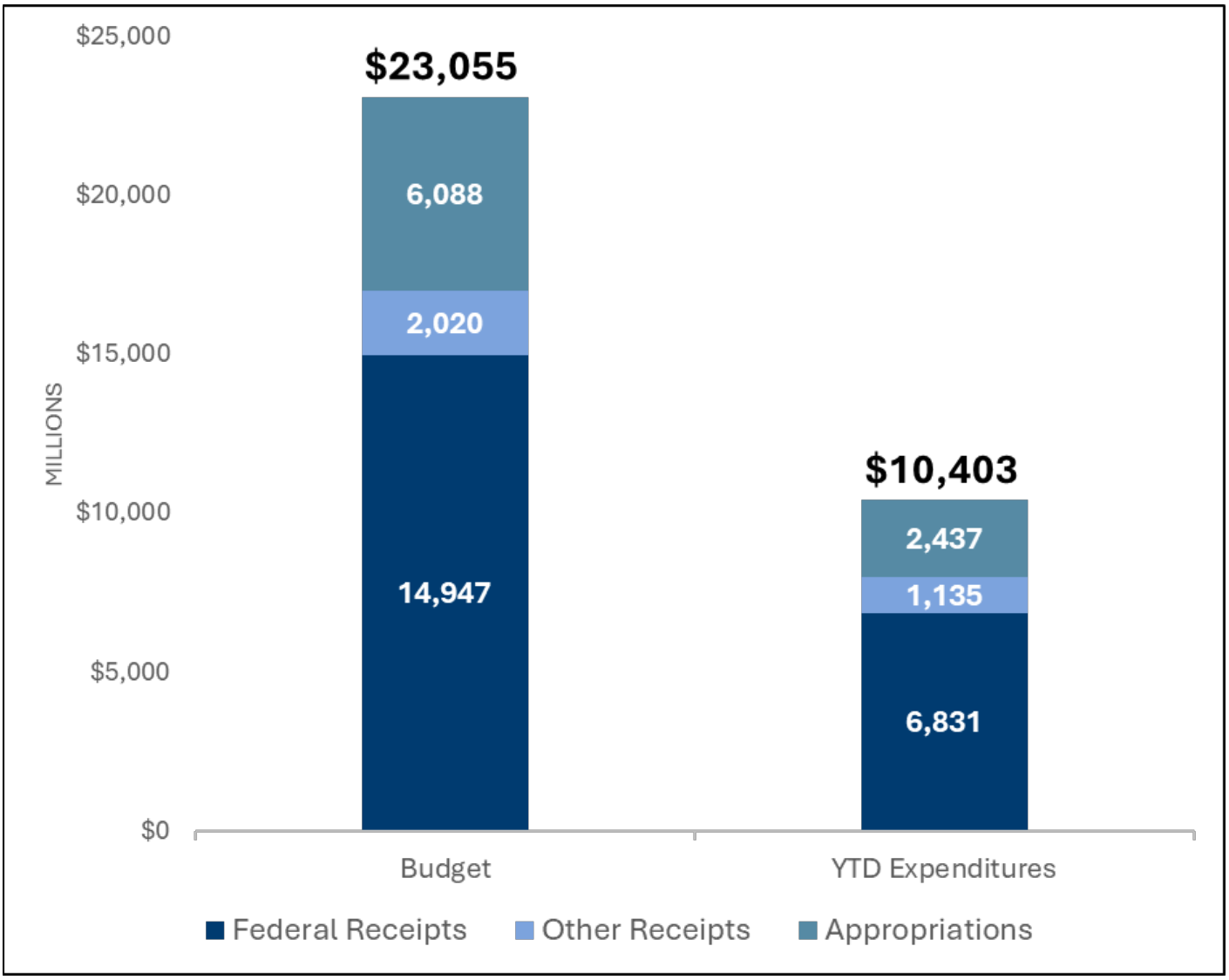


Data Sources: Medicaid Monthly Enrollment Reports; Months through November 2024 reflect actual cumulative enrollment; December 2024 and January 2025 are based on estimated cumulative (i.e., including retroactive) enrollment.

2. Year-to-Date General Fund Expenditures

The year-to-date (YTD) Medicaid expenditures through the most recent month for which there is complete data are summarized and compared to the SFY 2025 authorized budget in Figure 2 "Non-Expansion Medicaid Services: SFY 2025 Authorized Budget vs YTD Actual Expenditures through November 2024."

Figure 2: Non-Expansion Medicaid Services: SFY 2025 Authorized Budget v. Actual Expenditures through November 2024

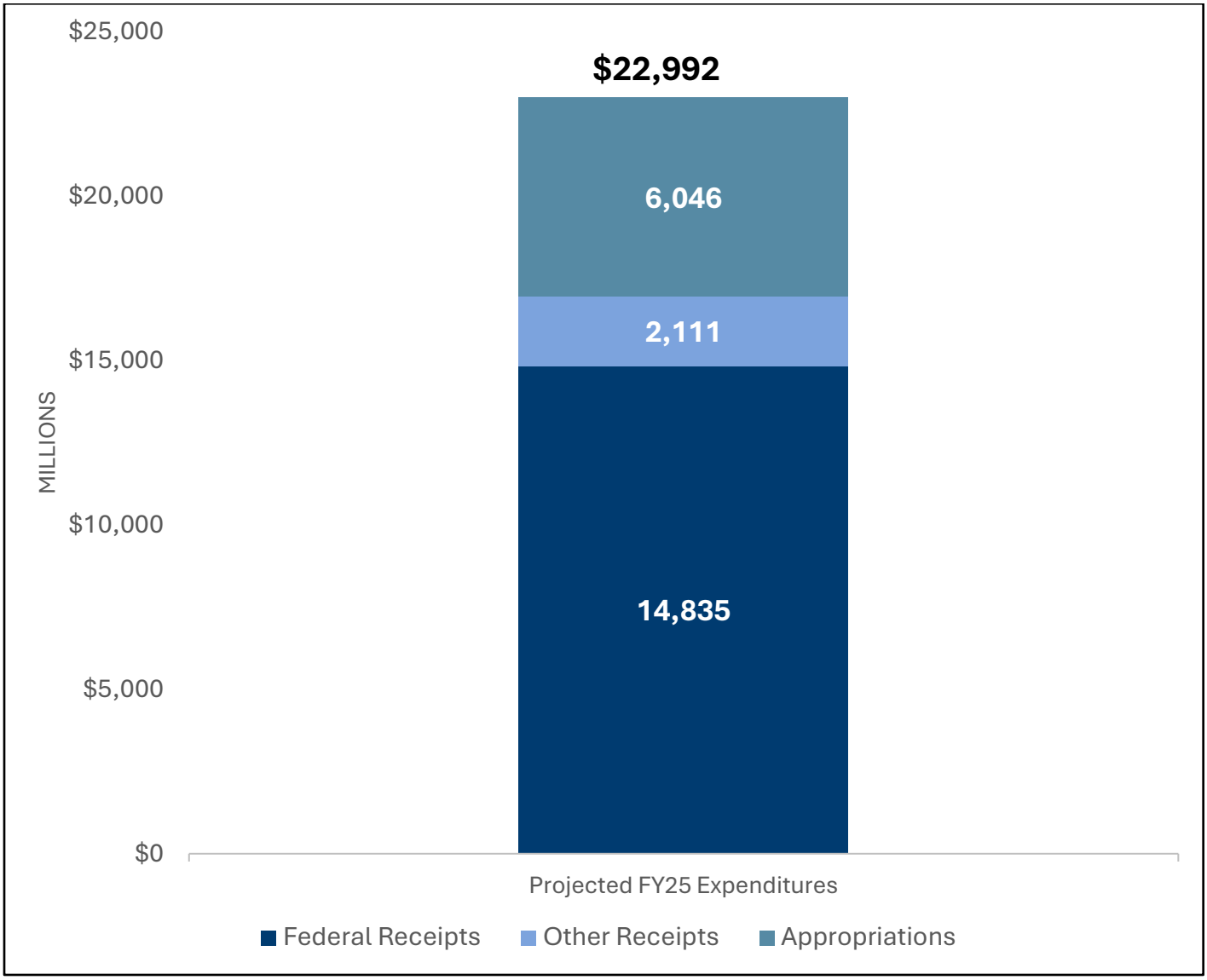


Source: SFY 2025 November BD701 Report; Note – does not include HASP or Medicaid Expansion expenditures, which have no General Fund impact.

3. Projected General Fund Expenditures for State Fiscal Year (SFY) 2025

Figure 3 "NC Medicaid Projected Non-Expansion Service Expenditures," illustrates the updated projected Medicaid expenditures by fund source for the remainder of the biennium. This forecast comes from the update of the Governor's Recommended Budget model that was used to inform the Medicaid Rebase item in the Governor's Recommended Budget Adjustments for FY 2024-25. This update uses an updated projection of enrollment and mid-year adjustments to capitation rates to project total expenditures for SFY 2025.

Figure 3: NC Medicaid Projected Non-Expansion Service Expenditures for SFY 2025



Source: Updated Governor's Model SFY25; Note – does not include HASP or Medicaid Expansion expenditures, which will have no General Fund impact. Does not include CFSP, which will not launch until SFY 2026. Includes SFY 2025 mid-year adjustments to capitation rates.

4. Budget Challenges Identified by NC Medicaid for SFY 2023-25 and 2025-27

As stated in the November 2024 version of this report, Medicaid does not foresee significant challenges in staying within budget for services in SFY 2025.

Challenges for SFY 2026-27 include the following:

1) Another decrease in federal match rate ("Federal Medical Assistance Percentage" or FMAP) of 0.44 percentage points (for FFY 2026) will lead to a higher state share of costs for the same services (i.e., even if all other factors were to remain the same).

2) Annual health care cost inflation (also known as "trend") typically leads "per member per month" (PMPM) capitation rates for managed care services to increase annually, even if there are no changes to the type of amount of services.

3) Recurring health care provider rate increases are badly needed for many provider types to maintain access to care for Medicaid members. While the General Assembly has helped to stabilize access to care by appropriating much needed recurring funding for rate increases to long term care providers (e.g., Skilled Nursing Facilities, Adult Care Homes, Personal Care Services, Community Alternatives Programs), Behavioral Health Services, and has supported both Facilities-based (e.g., Intermediate Care Facilities for Individuals with Intellectual and Developmental Disabilities/ICF-IDD) and Home and Community-Based Services (e.g., Home Health, Innovations Waiver) providers, many other provider types, such as Durable Medical Equipment (DME), Specialized Therapies (Speech-Language, Occupational, Physical), Dialysis, and Dental, have not received rate increases and are struggling to continue serving Medicaid members at reimbursement levels that have been stagnant since 2012-2015.

5. Planned Program Changes under G.S.108A-54(e)(1) Authority

Other than the changes noted in the prior report, NC Medicaid does not plan to make any additional program changes that would add materially to expenditures for SFY 2025.

6. Program Changes Required under State or Federal Law

Other than the changes noted in the prior report, NC Medicaid has not identified any other changes required under State or Federal law that were not projected in the Governor's Recommended Budget Adjustments for SFY 2024-25 and that would create additional costs for SFY 2025.

7. Unanticipated Costs Not Accounted for in the Budget Model

Other than the items noted in the prior report, NC Medicaid has not identified any other material unanticipated costs that were not projected in the Governor's Recommended Budget Adjustments for SFY 2024-25.

8. Requested Transfer of Medicaid Contingency Reserve

DHB is not requesting any Medicaid Contingency Reserve Funds at this time. Future reports will provide updates regarding assessment of this need.