Medicaid Section 1115 Demonstration Application

North Carolina Personal Care Services Alignment Demonstration

Targeted PCS Coverage for Adult Care Home and Special Care Unit Residents

Draft for Public Comment

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Executive Summary

North Carolina seeks approval of a Section 1115 demonstration, as directed by Session Law 2025-64 (HB 546), to provide Medicaid coverage of personal care services (PCS) to Medicare beneficiaries residing in licensed adult care homes and special care units whose incomes exceed existing state plan eligibility thresholds. Under current policy, these individuals must often enter a nursing facility to qualify for Medicaid, despite being appropriate for less restrictive settings, due to the higher income threshold available through the institutional eligibility pathway. The proposed demonstration establishes a targeted eligibility pathway and limited PCS benefit to better align beneficiary needs with care delivery in cost-effective, community-based settings.

The demonstration advances Medicaid objectives by promoting care in the most appropriate and cost-effective setting, reducing avoidable nursing facility placements, and improving continuity of care. Eligible individuals who meet clinical criteria for PCS and have incomes up to 180% of the federal poverty level (FPL) in adult care homes and 200% in special care units will receive a targeted PCS benefit consistent with the state plan, without expanding to full Medicaid coverage. This focused design, combined with strong program integrity safeguards, is expected to reduce institutional and acute care utilization while maintaining fiscal discipline. The State will apply a beneficiary liability methodology that is functionally aligned with Medicaid post-eligibility treatment of income principles. Demonstration enrollees will contribute available income toward the cost of care in a manner comparable to other Medicaid long-term services and supports populations, while remaining responsible for room and board obligations paid directly to their licensed adult care home or special care unit. The methodology does not alter State Plan PCS service definitions, authorization criteria, provider qualifications, or payment rates.

The demonstration also supports federal and state health improvement objectives by enabling beneficiaries to remain in stable, community-based residential settings that support daily functioning, care continuity, and engagement in primary and preventive care. By reducing reliance on institutional eligibility pathways and supporting better management of chronic conditions, the demonstration advances a more proactive, cost-effective model of care.

Section I – Demonstration Overview

I.A. Demonstration Description

North Carolina requests approval of a Section 1115 demonstration, pursuant to the Social Security Act and consistent with Session Law 2025-64 (HB 546), to provide Medicaid coverage of personal care services (PCS) for Medicare beneficiaries residing in licensed adult care homes and special care units.

The demonstration establishes an eligibility pathway through which otherwise ineligible Medicare beneficiaries may access a limited PCS benefit in community-based residential settings. Eligible individuals must meet functional eligibility criteria and specified income thresholds—up to 180% of the federal poverty level (FPL) for residents of adult care homes and up to 200% for residents of special care units. The demonstration does not provide full Medicaid coverage; rather, it authorizes a limited, service-specific benefit to support beneficiaries in the most appropriate and cost-effective setting.

The State will apply a beneficiary liability methodology that is functionally aligned with Medicaid post-eligibility treatment of income principles and designed to ensure demonstration enrollees contribute available income toward the cost of care in a manner comparable to other Medicaid long-term services and supports populations. Demonstration enrollees will remain responsible for room and board obligations paid directly to the licensed adult care home or special care unit in which they reside, subject to the same room and board ceiling applicable to State-County Special Assistance beneficiaries. Consistent with longstanding Medicaid requirements prohibiting federal Medicaid reimbursement for room and board, these obligations remain separate from Medicaid PCS coverage. This approach reinforces fiscal integrity by reducing the net Medicaid and federal share of PCS expenditures. The methodology does not alter State Plan PCS service definitions, authorization criteria, provider qualifications, or payment rates.

Consistent with HB 546, the demonstration will operate statewide and focus on individuals whose needs can be appropriately met in adult care homes or special care units but who lack access to Medicaid-covered PCS under current eligibility rules. By enabling access to PCS in these settings, the demonstration better aligns beneficiary needs with service delivery while maintaining strong program integrity and fiscal discipline. The demonstration will be implemented on a budget-neutral basis and subject to ongoing monitoring and evaluation.

I.B. Problem Statement and Impact on the Medicaid Program

The current Medicaid eligibility framework for long-term services and supports creates an institutional bias that can incentivize unnecessary nursing facility placement. Under existing policy, many Medicare beneficiaries cannot qualify for Medicaid coverage of PCS unless they enter a nursing facility, even when their needs could be safely and effectively met in less restrictive settings such as adult care homes or special care units. Because income standards vary by care setting and eligibility pathway, the framework creates a structural barrier to accessing PCS in community-based residential settings. This disparity is inconsistent with longstanding Medicaid goals of supporting individuals in the least restrictive appropriate setting and promoting access to community-based services when beneficiary needs can be safely and effectively met outside of institutional care.

For individuals residing in adult care homes or special care units, Medicaid eligibility is generally tied to the State's Special Assistance program. This is North Carolina's optional state supplement through which recipients become Medicaid eligible in accordance with 42 CFR 435.232. Individuals with incomes modestly above these limits are not eligible for Medicaid coverage, even if they meet functional criteria and could be safely served in non-institutional settings. In contrast, individuals who enter a nursing facility may qualify for Medicaid through the institutional eligibility pathway, which permits individuals with higher incomes to qualify through a spend-down process. This pathway effectively enables individuals with significantly higher incomes to gain access to Medicaid-covered PCS and related services, but only if they enter an institutional setting.

As a result, individuals with similar needs have very different access to services based solely on where they receive care. Residents of adult care homes or special care units who meet North Carolina's clinical criteria for Medicaid-covered PCS may be ineligible for services because of income, while individuals with higher incomes may be able to access Medicaid coverage through an institutional eligibility pathway. Although eligibility for residency in adult care homes and special care units is not based on nursing facility level of care criteria, residents of these settings frequently require substantial personal care assistance. Recent North Carolina assessment data show that more than 95 percent of assessed adult care home and special care unit residents qualify for PCS, with qualified individuals requiring hands-on assistance with an average of 4.35 activities of daily living and nearly 84 percent requiring assistance with four to five ADLs. Without access to Medicaid-covered PCS, some individuals may experience avoidable declines in functioning that increase the risk of nursing facility placement despite being appropriately served in a community-based residential setting. This misalignment between eligibility policy and care needs undermines the State's ability to deliver services in the most appropriate and cost-effective setting and contributes to the following challenges:

- **Higher program expenditures** due to avoidable reliance on institutional care
- **Inefficient service utilization** with individuals receiving care in settings that exceed their functional needs
- **Disruptions in continuity of care** as transitions to nursing facilities interrupt established residential placements
- **Limited access to needed services** for individuals who remain in residential settings but lack coverage for PCS

I.C. Demonstration Goals and Objectives

Consistent with HB 546, the proposed demonstration is designed to address these challenges through a targeted, fiscally responsible approach that realigns eligibility and service delivery with beneficiary needs. The demonstration will pursue the following goals:

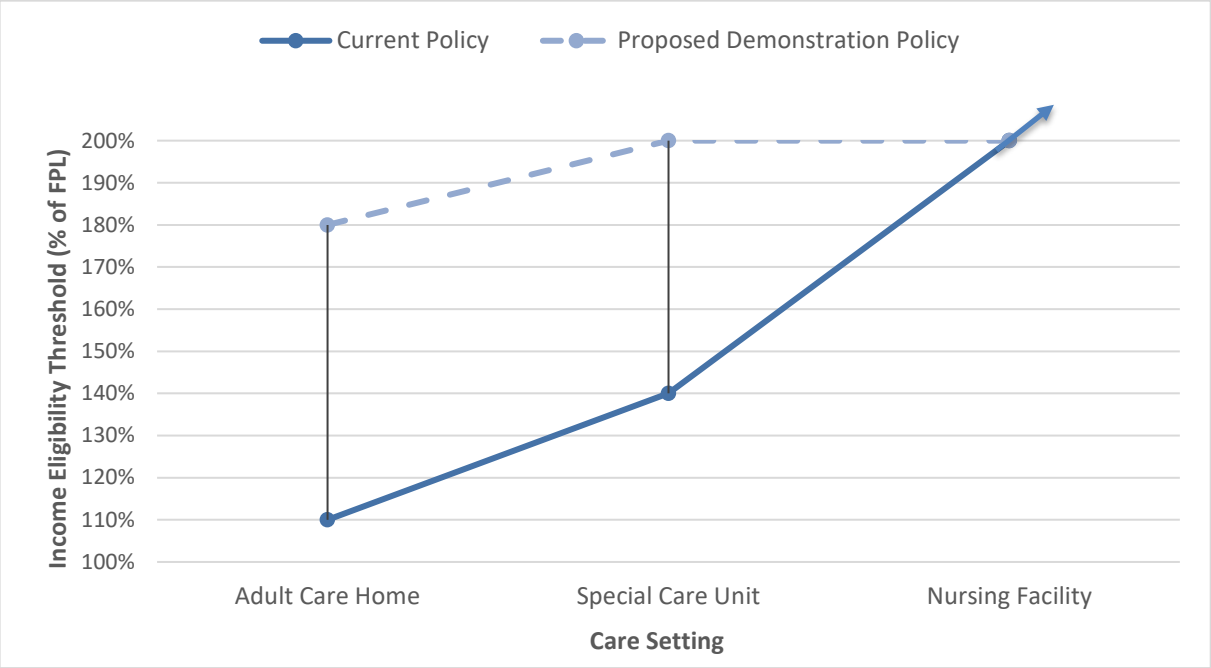
1. **Align Medicaid eligibility and services with the most appropriate care setting.** The demonstration will align Medicaid eligibility criteria with appropriate care settings, reducing unnecessary reliance on institutional eligibility pathways and lowering overall program expenditures.

2. **Ensure access to PCS in the most appropriate and cost-effective setting.** The demonstration will provide a targeted PCS benefit to eligible individuals in adult care homes and special care units, increasing access to services in settings where care can be delivered efficiently and appropriately.
3. **Reduce unnecessary placement disruptions and nursing facility transfers.** By enabling access to PCS in current residential settings, the demonstration will reduce avoidable transitions to nursing facilities and acute care settings, supporting stability and continuity of care.
4. **Promote preventive, whole-person health and reduce chronic disease progression.** Consistent with federal and state health improvement objectives, the demonstration will support beneficiary health by enabling individuals to remain in stable residential settings that facilitate ongoing management of chronic conditions, engagement in primary and preventive care, and avoidance of preventable health deterioration.

I.D. Expected Impacts of the Demonstration

The demonstration aims to improve the alignment between eligibility, service delivery, and cost within the Medicaid program, by narrowing differences in income eligibility across care settings, as illustrated in Figure 1.

Figure 1. Aligning Income Thresholds Reduces Institutional Bias



The demonstration will advance objectives of the Medicaid program by:

- **Promoting care in less restrictive, cost-effective settings** that are appropriate to beneficiary needs
- **Reducing reliance on higher-cost institutional services** when individuals can be appropriately supported in residential settings

- **Enhancing continuity of care and service stability,** minimizing disruptive transitions
- **Supporting improved health outcomes** through better management of chronic conditions and increased engagement with care
- **Maintaining fiscal discipline,** through a limited benefit design, targeted eligibility criteria, and adherence to federal budget neutrality requirements
- **Strengthening program integrity and accountability** through clear eligibility standards, robust verification processes, and oversight mechanisms to ensure that services are provided only to qualified individuals and in accordance with applicable clinical and service requirements

I.E. Demonstration Timeframe

The State requests a five-year approval period for this demonstration, consistent with the authority provided under section 1115(a) of the Social Security Act. The State intends to implement the demonstration immediately upon approval to promptly address identified access and system inefficiencies.

Section II – Program Description

II.A. Demonstration Eligibility

The proposed demonstration population consists of individuals in North Carolina who are seeking admission to or residing in a licensed adult care home or special care unit and who meet the eligibility criteria described below.

To be eligible for enrollment in the demonstration, individuals must:

- Reside in, or be seeking admission to, a licensed adult care home (including those within a combination home) or special care unit in North Carolina;
- Meet all State-County Special Assistance program[1] requirements other than income, including applicable age, disability, and resource requirements;
- Have income at or below:
    - 180 percent of FPL for individuals residing in or seeking admission to a licensed adult care home; or
    - 200 percent of FPL for individuals residing in or seeking admission to a special care unit;
- Otherwise satisfy all applicable Medicaid eligibility requirements, including North Carolina residency and citizenship requirements;
- Be enrolled in Medicare, as required under Session Law 2025-64 (HB 546);
- Require PCS, as defined in the North Carolina Medicaid State Plan, based on assessed need; and
- Not otherwise be eligible for Medicaid-covered PCS in an adult care home or special care unit under an existing North Carolina Medicaid eligibility pathway.

Eligibility determinations for the demonstration population will be conducted using methodologies aligned with existing eligibility processes and in accordance with applicable federal requirements. The State will apply standard verification procedures, including validation of income, Medicare status, and residency, supported by electronic data sources and periodic redeterminations to ensure continued eligibility. Further, the State will implement robust program integrity safeguards consistent with federal requirements, including audit trails, real-time and periodic eligibility verification, and monitoring aligned with Payment Error Rate Measurement (PERM) expectations.

The demonstration is projected to serve approximately 6,000 individuals statewide at full implementation. Enrollment is expected to phase in gradually, beginning with approximately 3,000 individuals at implementation and increasing over an estimated 11-month period as outreach, education, and beneficiary awareness efforts support enrollment growth to the projected full enrollment level. The demonstration is not expected to affect enrollment in the traditional Medicaid program, as it is limited to individuals who are not otherwise eligible for Medicaid coverage.

[1] North Carolina's optional state supplement program.

II.B. Demonstration Cost Sharing

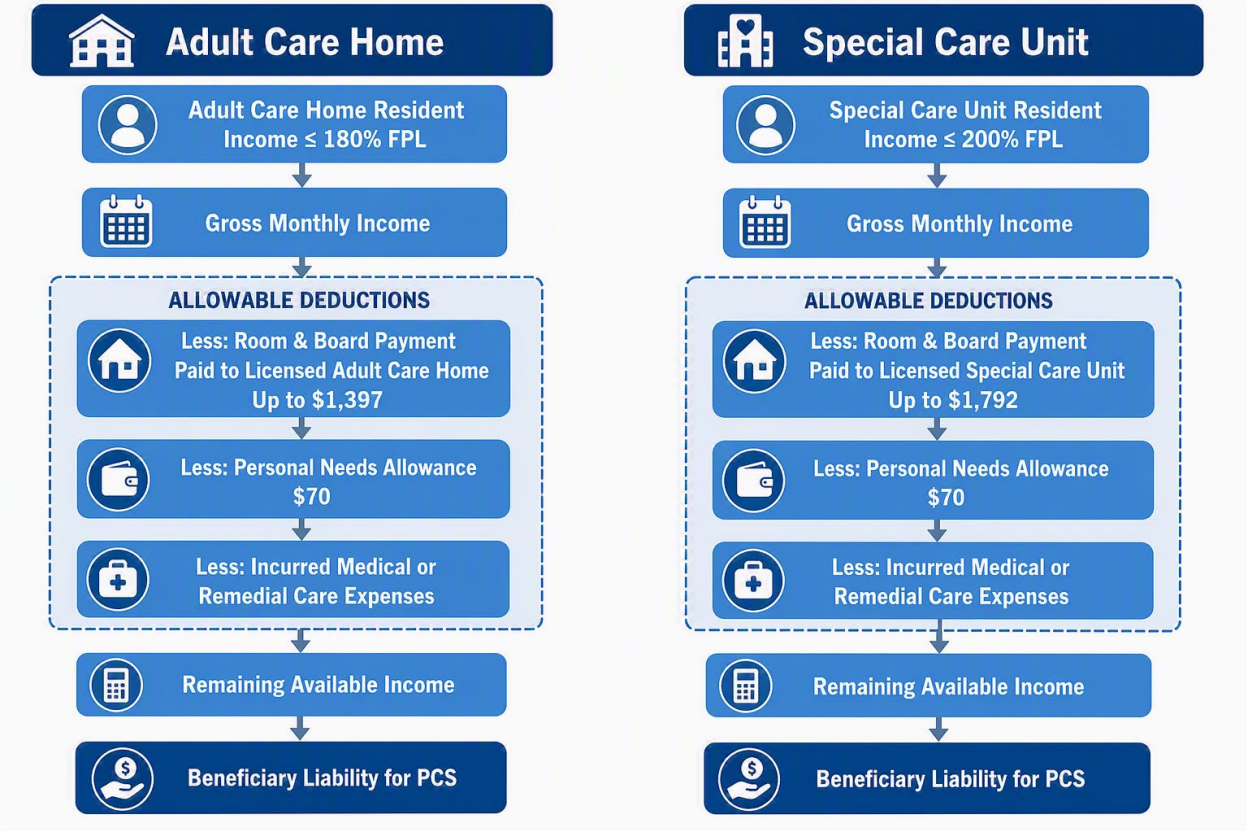
The demonstration does not impose premiums, copayments, deductibles, or other Medicaid cost-sharing. Demonstration enrollees will be responsible for paying room and board obligations directly to the licensed adult care home or special care unit in which they reside, with the amount capped at the same level applicable to State-County Special Assistance beneficiaries residing in the same setting. Consistent with longstanding Medicaid requirements prohibiting federal Medicaid reimbursement for room and board in residential settings, these obligations remain separate from Medicaid PCS coverage. Accordingly, the demonstration preserves existing beneficiary responsibility for room and board while limiting Medicaid reimbursement to covered PCS.

The State will apply a beneficiary liability methodology under which eligible individuals may contribute a portion of their income toward the cost of PCS after application of established deductions and allowances. The methodology is functionally aligned with Medicaid post-eligibility treatment of income principles and, consistent with the financial eligibility methodologies used for North Carolina's State-County Special Assistance program, is based on the income of the demonstration enrollee. The beneficiary liability methodology is not a premium, copayment, deductible, or other form of cost sharing under 42 CFR Part 447. Rather, it is a financing methodology used to determine the amount of available income a demonstration enrollee contributes toward the cost of care after application of applicable deductions, allowances, and room and board obligations.

The beneficiary liability methodology helps ensure that the targeted service expansion remains financially comparable to other Medicaid long-term services and supports pathways and does not create a more generously subsidized benefit than would otherwise be available under Title XIX authorities. By applying a methodology that is functionally aligned with longstanding post-eligibility treatment of income principles and maintaining room and board obligations comparable to those applicable under the State-County Special Assistance program, the State promotes consistency with existing Medicaid long-term services and supports financing approaches while recognizing that the demonstration provides only a targeted PCS benefit rather than the broader coverage available under other Medicaid authorities. The methodology also reinforces fiscal integrity by reducing the net Medicaid and federal share of PCS expenditures relative to a fully subsidized benefit.

Figure 2 illustrates the beneficiary liability methodology that will be applied to demonstration enrollees. After accounting for room and board obligations paid directly to the licensed adult care home or special care unit and other allowable deductions, any remaining available income is applied toward the cost of Medicaid-covered PCS. Please note the room and board payment amounts displayed represent the maximum 2026 limits. In alignment with the State-County Special Assistance program methodology, these limits are updated annually using the federally approved Social Security cost-of-living adjustment (COLA), if any, effective for the applicable year.

Figure 2. Beneficiary Liability Methodology



II.C. Delivery System & Payment Rates for Services

Services under the demonstration will be delivered through Medicaid Direct, North Carolina's existing Medicaid fee-for-service (FFS) delivery system, consistent with the delivery system used for Medicaid-covered services furnished to Medicare-eligible individuals. The demonstration population will receive PCS under this same FFS structure, and the State does not propose any changes to provider participation, service delivery models, or administrative processes.

Medicare will remain the primary payer for all Medicare-covered services for individuals enrolled in the demonstration. The demonstration will provide Medicaid coverage only for PCS as defined under the North Carolina Medicaid State Plan, and only to the extent PCS is not covered by Medicare or another liable third party, in accordance with applicable coordination of benefits requirements.

Payment rates for PCS furnished under the demonstration will not differ from those established under the approved state plan. The State will apply the same reimbursement methodologies, fee schedules, and provider payment policies that govern PCS under the state plan. No alternative payment models, rate enhancements, or demonstration-specific payment adjustments are proposed.

Providers will furnish PCS to demonstration enrollees through the State's existing provider and care delivery infrastructure. All providers must meet state plan enrollment and qualification requirements.

Service delivery will be supported by established State systems and processes, including:

- **Eligibility and enrollment systems** aligned with 42 CFR Part 435 for determining and maintaining enrollee eligibility
- **Claims processing and payment systems** used under the Medicaid FFS program
- **Electronic Visit Verification (EVV),** as applicable under North Carolina Medicaid policy, to verify delivery of Medicaid-covered PCS furnished under the demonstration
- **Utilization management processes**, including medical necessity determinations, service authorization, and reassessment protocols
- **Provider screening and enrollment systems** consistent with 42 CFR Part 455, including risk-based screening, revalidation, and ongoing monitoring
- **Program integrity systems**, including the Surveillance and Utilization Review System (SURS), to identify aberrant billing and utilization patterns
- **Provider training and oversight activities** related to fraud, waste, and abuse (FWA) compliance

These systems will ensure that demonstration services are delivered in a manner that is operationally feasible, consistent with state plan requirements, and compliant with federal standards.

The proposed demonstration design is expected to improve quality, access, and coordination of care for the demonstration population by expanding access to community-based services while leveraging existing delivery systems.

Specifically, the demonstration is expected to:

- **Expand access to services** by establishing a new eligibility pathway for individuals who require PCS but do not meet current income thresholds outside of institutional settings
- **Improve continuity and stability of care** by enabling individuals in the demonstration population to remain in licensed adult care homes or special care units, thereby reducing unnecessary transitions to higher levels of care, including institutional settings
- **Enhance quality and access** by increasing availability of community-based PCS and reducing fragmentation in service delivery
- **Reduce acute care utilization** through earlier intervention and consistent personal care support
- **Advance person-centered care goals** by aligning services with beneficiary needs and preferences

By relying on the State's existing FFS system and maintaining consistency with state plan payment methodologies, the demonstration promotes administrative efficiency while expanding access to medically necessary services for a defined population.

II.D. Demonstration Benefits

Under the proposed demonstration, the State will provide a limited benefit package consisting exclusively of PCS, as defined in the North Carolina Medicaid state plan. These services will be available only to individuals enrolled in the demonstration eligibility group residing in or seeking admission to

licensed adult care homes and special care units and meeting applicable functional and clinical eligibility criteria. Medicare will remain the primary payer for all covered services.

The demonstration does not provide comprehensive Medicaid benefits; instead, it establishes a targeted, service-specific benefit pathway through which eligible individuals may access Medicaid-covered PCS. The demonstration does not modify the underlying benefit design but instead extends access to an existing state plan service to the targeted demonstration population. The only distinction from PCS services under the North Carolina Medicaid state plan is that, under the demonstration, PCS coverage is made available to the defined demonstration eligibility group that would not otherwise be eligible in the absence of the demonstration.

PCS furnished under the demonstration will be delivered in accordance with all applicable state plan requirements, including service definitions, provider qualifications, scope of services, and clinical coverage criteria. Services will not differ from the state plan PCS benefit in terms of scope, amount, or duration. Services under the demonstration will also be subject to the same clinical, operational utilization management and program integrity requirements applicable to PCS provided under the state plan, including:

- Medical necessity determinations consistent with State-defined clinical policy
- Applicable prior authorization or service authorization requirements
- Established service limits and reassessment intervals
- Compliance with EVV requirements

Section III – Program Evaluation

North Carolina will conduct a rigorous evaluation of the proposed Section 1115 demonstration to assess whether it achieves its core objectives. Consistent with 42 CFR 431.424, the evaluation will include clearly defined hypotheses, research questions, measures, and data sources aligned to each demonstration goal. The evaluation will assess both implementation (whether the demonstration is operating as intended) and outcomes (whether it produces measurable impacts on access, utilization, quality, and cost). North Carolina will engage an independent evaluator and utilize quantitative and qualitative methods, including pre/post comparisons and, where feasible, comparison group analyses. A preliminary evaluation framework is outlined in Table 1.

Table 1. Preliminary Evaluation Framework

Demonstration Goal	Hypothesis	Research Question(s)	Potential Measure(s)	Data Source(s)
Align Medicaid eligibility and services with the most appropriate care setting.	Aligning eligibility criteria with appropriate care settings reduces Medicaid expenditures by shifting utilization from institutional LTSS to PCS in community-based settings.	1. Does the demonstration reduce Medicaid spending on institutional LTSS? 2. Does PCS spending increase following implementation? 3. What is the net effect of the demonstration on PMPM Medicaid LTSS expenditures?	• PMPM Medicaid spending (PCS, NF, total LTSS) • Percent of LTSS spending in institutional vs. community-based settings • Percent of LTSS spending on PCS services	Medicaid claims (PCS, NF); eligibility/enrollment data
Ensure access to PCS in the most appropriate and cost-effective setting	The demonstration increases access to PCS among eligible individuals in adult care homes and special care units.	1. Does the demonstration increase the proportion of eligible individuals receiving PCS? 2. Does PCS utilization increase post-implementation?	• Percent of eligible individuals receiving PCS • PCS utilization (units/hours PMPM) • Continuity of PCS (months with uninterrupted use)	Medicaid PCS claims; prior authorization data
Reduce unnecessary placement disruptions and nursing facility transfers	Access to PCS reduces avoidable transitions to institutional settings and improves care stability.	1. Does the demonstration reduce Medicaid-paid nursing facility admissions? 2. Does it reduce short-term institutional placements? 3. Does it improve continuity in residential settings?	• NF admission rate (Medicaid-paid) • Short-stay NF admissions (<90 days) • Number of care setting transitions	Medicaid claims (NF, PCS); eligibility/enrollment data
Promote preventive, whole-person health and reduce chronic disease progression	Access to PCS supports continuity of care and functional stability by helping eligible individuals remain in community-based settings and delaying or reducing transitions to higher levels of care.	1. Does the demonstration delay or reduce transition to higher levels of care, including Medicaid-paid nursing facility admissions?	• Months with continuous PCS utilization during demonstration enrollment • PCS utilization intensity over time	Medicaid claims (PCS, NF); eligibility/enrollment data

Demonstration Goal	Hypothesis	Research Question(s)	Potential Measure(s)	Data Source(s)
			• Short-stay NF admissions (<90 days) • Duration of continuous community-based residence	

Section IV – Demonstration Financing & Budget Neutrality

IV.A. Activity Classification and Federal Budget Impact

Expenditures under this demonstration are Medicaid Authorizable Populations and Services (MAPS), consistent with new requirements under section 1115(g) of the Social Security Act and State Medicaid Director Letter (SMDL) #26-003. MAPS activities include coverage of populations and services that the State could otherwise provide under the Medicaid state plan or other Title XIX authority, including services that could be delivered at different sites of service. For MAPS activities, expenditures under the demonstration are treated as equivalent to expenditures absent the demonstration and therefore have a net financial impact of zero for budget neutrality purposes.

The State has determined that the population **and** service covered under this demonstration could otherwise be implemented through the Medicaid state plan. Specifically, the demonstration population could be covered through an expanded optional state supplement eligibility pathway authorized under 42 CFR 435.232. The proposed demonstration income thresholds of 180 percent FPL for adult care home residents and 200 percent FPL for special care unit residents remain below the 300 percent SSI Federal Benefit Rate (FBR) maximum income standard permitted under 42 CFR 435.1006, supporting the State's determination that the population could otherwise be covered under Title XIX authority. Additionally, PCS furnished under the demonstration is an existing service defined and authorized under the North Carolina Medicaid state plan.

In addition to the State's determination that both the population and service could otherwise be covered under Title XIX authority, the demonstration provides a more targeted and fiscally efficient approach to addressing the identified coverage gap. If the State expanded income eligibility for its optional state supplement (known as Special Assistance in North Carolina) and covered this population through the state plan, it would have to provide the full Medicaid benefit package instead of the narrower, more cost-effective set of services proposed under the demonstration. This would result in higher federal costs. Accordingly, the demonstration qualifies as a MAPS activity and reflects a fiscally prudent approach that expands access to PCS while avoiding the higher federal expenditures associated with providing the full Medicaid benefit package to the same population.

Finally, the State attests that the payment methodology for the demonstration population and service is consistent with payment terms under the Medicaid state plan. Adult care homes and special care units providing PCS to demonstration enrollees will be reimbursed in accordance with the payment methodologies described in the state plan. Together, these factors support the State's determination that the proposed population, service, and payment methodology satisfy the MAPS framework. Table 2 summarizes the State's MAPS analysis and the basis for its determination that the demonstration activity meets the MAPS definition under SMDL #26-003.

Table 2. Summary of State MAPS Determination

MAPS Element	North Carolina MAPS Determination
Population	Aged or disabled individuals in licensed adult care homes or special care units who could otherwise be covered through an expanded optional state supplement eligibility pathway authorized under 42 CFR 435.232.
Income Standard	Demonstration income thresholds of 180% FPL (adult care homes) and 200% FPL (special care units) remain below the 300% SSI Federal Benefit Rate maximum income standard permitted under 42 CFR 435.1006.
Service	PCS authorized under the North Carolina Medicaid state plan.
Payment Methodology	Existing State Plan PCS reimbursement methodology; no rate enhancement, alternate payment methodology, or demonstration-specific payment adjustment.
Title XIX Authority	Both the demonstration population and PCS benefit could otherwise be authorized under existing Title XIX authorities.
Scope of Demonstration	PCS-only limited benefit that represents a subset of the broader Medicaid state plan coverage that could otherwise be provided through a state plan eligibility expansion. Compared to a state plan eligibility expansion, the demonstration offers a more targeted and fiscally efficient approach by expanding access to medically necessary PCS without extending the full Medicaid benefit package to the same population.
Budget Neutrality Treatment	MAPS activity with a net financial impact of zero under section 1115(g) and SMDL #26-003.

IV.B. Projected MAPS Expenditures

As a MAPS activity, the demonstration has a net financial impact of zero for purposes of determining budget neutrality. Table 3 provides projected MAPS expenditures for each demonstration year, in accordance with SMDL #26-003.

Table 3. Projected MAPS Expenditures

Setting	Demonstration Year 1		Demonstration Year 2		Demonstration Year 3		Demonstration Year 4		Demonstration Year 5	
	Member Months	Federal Expenditures	Member Months	Federal Expenditures	Member Months	Federal Expenditures	Member Months	Federal Expenditures	Member Months	Federal Expenditures
ACH	38,119	$ 40,900,399	49,451	$ 53,405,574	49,451	$ 53,753,423	49,451	$ 54,103,536	49,451	$ 54,455,930
Combo	1,359	$ 1,346,725	1,764	$ 1,758,482	1,764	$ 1,769,936	1,764	$ 1,781,464	1,764	$ 1,793,067
SCU	16,022	$ 25,330,809	20,785	$ 33,075,629	20,785	$ 33,291,061	20,785	$ 33,507,897	20,785	$ 33,726,145
Total	**55,500**	**$ 67,577,934**	**72,000**	**$ 88,239,685**	**72,000**	**$ 88,814,420**	**72,000**	**$ 89,392,897**	**72,000**	**$ 89,975,142**

IV.C. Demonstration Financing

The State will finance the non-federal share of expenditures under this request using State general funds.

Section V – Requested Waivers & Expenditure Authorities

A. Waiver Authority

The State requests the following waiver authority under section 1115(a)(1) of the Social Security Act to the extent necessary to implement the demonstration:

1. **Comparability (Amount, Duration, and Scope)** Section 1902(a)(10)(B)

   To the extent necessary to allow the State to provide the demonstration population with a limited benefit package, consisting solely of PCS, that differs from the full North Carolina Medicaid state plan benefit package.

B. Expenditure Authorities

The State requests expenditure authority under section 1115(a)(2) of the Social Security Act for the following:

1. **Coverage for Demonstration Population Not Otherwise Eligible**

   Expenditures for Medicaid coverage of PCS furnished to individuals who meet the demonstration eligibility criteria and who are not otherwise eligible for Medicaid under existing Medicaid pathways in the State.

2. **Limited Benefit Package**

   Expenditures to provide a targeted, service-specific benefit consisting solely of PCS to demonstration enrollees in lieu of the full state plan benefit package.

Section VI – Public Notice & Tribal Consultation

The State is conducting public notice and tribal consultation in accordance with 42 CFR 431.408. A summary of comments received, along with any resulting updates to the demonstration, will be provided following completion of the public notice and tribal consultation periods. Copies of the public and tribal notices are available in Appendices A – C.

Section VII – State Contact Information

Name: Todd Baustert
Title: Deputy Director, Strategy & Planning
Telephone Number: 919-215-5605
Email Address: todd.baustert@dhhs.nc.gov

Appendix A. Abbreviated Public Notice Document

NOTICE OF NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES PUBLIC COMMENT PERIOD FOR NORTH CAROLINA PERSONAL CARE SERVICES ALIGNMENT DEMONSTRATION

Notice is hereby given that the North Carolina Department of Health and Human Services (North Carolina) will hold public hearings regarding a proposed Section 1115 Medicaid demonstration entitled the North Carolina Personal Care Services Alignment Demonstration. Pursuant to Section 1115 of the Social Security Act, North Carolina intends to submit an application to the Centers for Medicare & Medicaid Services (CMS) seeking authority to establish a targeted Medicaid eligibility pathway and limited personal care services (PCS) benefit for certain Medicare beneficiaries residing in licensed adult care homes and special care units.

Hearings offer an opportunity for the public to provide written or verbal comments regarding the proposed demonstration. All comments received during the public comment period will be reviewed and considered prior to submission of the application to CMS. Hearings will be held at the following dates, times, and locations:

First Public Hearing

Sept. 16, 2026 from 5:30 –7 p.m.
Virtual via Microsoft Teams (Join on your computer, mobile app or room device)
Click here to join the meeting
Call in (audio only)
+1 984-204-1487, 438242315# (United States)
Phone conference ID: 438 242 315#

Second Public Hearing (in person)

Sept. 29, 2026 from 2:30-4 p.m.
Greenville Convention Center
303 SW Greenville Blvd
Greenville NC 27834

Third Public Hearing (in person)

Oct. 12, 2026 from 2:30-4 p.m.
Mountain Area Health Education Center (MAHEC)
Blue Ridge A & B in the Education Building
121 Hendersonville Road, Asheville NC 28803

Fourth Public Hearing

Oct. 22, 2026 from 11:30 a.m. - 12:30 p.m.NC Medicaid Advisory Committee (MAC) Meeting
Virtual via Microsoft Teams (Join on your computer, mobile app or room device)
Click here to join the meeting

Call in (audio only)
+1 984-204-1487, 352166225# (United States)
Phone conference ID: 352 166 225#

The proposed demonstration would provide Medicaid coverage of PCS to eligible Medicare beneficiaries residing in licensed adult care homes and special care units whose incomes exceed current State-County Special Assistance eligibility limits but whose needs can be appropriately met in these community-based residential settings. The demonstration is intended to improve access to services, promote care in the most appropriate and cost-effective setting, reduce unnecessary nursing facility placement, and improve continuity of care.

A full public notice, demonstration application, tribal notice, and supporting materials are available at NC Section 1115 Demonstration Waiver | NC Medicaid. You may also request a copy of the proposed demonstration application and/or a copy of submitted public comments, once available, by requesting it in writing to the mailing or email addresses listed in this notice.

Written comments may be addressed to
North Carolina Department of Health and Human Services
NC Medicaid Section 1115 Waiver Team
1950 Mail Service Center
Raleigh, NC 27699-1950

Comments may also be sent via electronic mail to: Medicaid.NCEngagement@dhhs.nc.gov through Nov. 9, 2026.

Appendix B. Full Public Notice Document

PUBLIC NOTICE

Notice of Intent to Submit a Section 1115 Demonstration Application for the North Carolina Personal Care Services Alignment Demonstration

Pursuant to Section 1115 of the Social Security Act and 42 CFR 431.408, the North Carolina Department of Health and Human Services (North Carolina) provides notice of its intent to submit a Section 1115 demonstration application entitled the North Carolina Personal Care Services Alignment Demonstration: Targeted PCS Coverage for Adult Care Home and Special Care Unit Residents to the Centers for Medicare & Medicaid Services (CMS). The proposed demonstration would establish a targeted Medicaid eligibility pathway and limited personal care services (PCS) benefit for eligible Medicare beneficiaries residing in or seeking admission to licensed adult care homes and special care units who are not currently eligible to receive Medicaid-covered PCS under existing eligibility rules.

Summary of Demonstration Request

North Carolina seeks approval of a five-year section 1115 demonstration to provide Medicaid coverage of PCS to eligible Medicare beneficiaries residing in or seeking admission to licensed adult care homes and special care units whose incomes exceed current State-County Special Assistance eligibility thresholds but whose needs can be appropriately met in these community-based residential settings. The demonstration would establish a targeted eligibility pathway through which qualifying individuals could access Medicaid-covered PCS without requiring admission to a nursing facility.

The demonstration would provide a limited benefit consisting solely of PCS and would not provide comprehensive Medicaid coverage. Services furnished under the demonstration would be identical to PCS currently covered under the North Carolina Medicaid State Plan and would continue to be subject to existing clinical, operational, and program integrity requirements.

Demonstration Description and Goals

North Carolina seeks approval of this demonstration to address a longstanding gap in access to Medicaid-covered PCS for residents of adult care homes and special care units whose incomes exceed Medicaid eligibility limits applicable outside institutional settings. Under current policy, individuals with similar functional needs may have significantly different access to Medicaid coverage depending on where they receive care. In some cases, individuals may qualify for Medicaid through institutional eligibility pathways if they enter a nursing facility, while individuals with lower levels of need who reside in community-based residential settings remain ineligible for coverage of PCS. The State believes this disparity creates an institutional bias that may encourage unnecessary nursing facility placement and limits access to services in less restrictive settings.

Through this demonstration, the State seeks to:

- Align Medicaid eligibility and services with the most appropriate care setting.
- Ensure access to personal care services in community-based residential settings where care can be delivered efficiently and appropriately.
- Reduce unnecessary nursing facility transfers and placement disruptions.
- Promote preventive, whole-person health and support management of chronic conditions through continuity of care and stable residential placement.

The demonstration is expected to promote care in less restrictive and more cost-effective settings, reduce reliance on higher-cost institutional services, improve continuity of care, and strengthen program integrity through clear eligibility standards and oversight processes.

Target Population and Eligibility Criteria

The proposed demonstration population consists of individuals residing in or seeking admission to licensed adult care homes and special care units in North Carolina who meet all demonstration eligibility requirements.

To qualify for enrollment, individuals must:

- Reside in, or be seeking admission to, a licensed adult care home (including those within combination homes) or special care unit in North Carolina;
- Meet all State-County Special Assistance program requirements other than income, including applicable age, disability, and resource requirements;
- Have income at or below:
    - 180 percent of FPL for individuals residing in or seeking admission to a licensed adult care home; or
    - 200 percent of FPL for individuals residing in or seeking admission to a special care unit;
- Otherwise satisfy all applicable Medicaid eligibility requirements, including North Carolina residency and citizenship requirements;
- Be enrolled in Medicare, as required under Session Law 2025-64 (HB 546);
- Require PCS, as defined in the North Carolina Medicaid State Plan, based on assessed need; and
- Not otherwise be eligible for Medicaid-covered PCS in an adult care home or special care unit under an existing North Carolina Medicaid eligibility pathway.

Benefits, Cost Sharing, and Delivery System

Services under the demonstration will be delivered through Medicaid Direct, North Carolina's existing fee-for-service delivery system. The State is not proposing any changes to provider participation requirements, reimbursement methodologies, operational systems, or service delivery structures. Existing Medicaid eligibility systems, claims processing systems, utilization management processes, provider screening requirements, Electronic Visit Verification systems, and program integrity activities will continue to be used for demonstration administration.

The demonstration would provide a limited Medicaid benefit consisting exclusively of PCS as defined under the North Carolina Medicaid State Plan. The demonstration does not alter the scope, duration, amount, service definitions, provider qualifications, payment rates, or authorization criteria for PCS.

Rather, it extends access to an existing State Plan service to a defined population that would not otherwise be eligible.

The demonstration does not impose premiums, copayments, deductibles, or other Medicaid cost-sharing obligations. Demonstration participants will remain responsible for room and board obligations paid directly to the licensed adult care home or special care unit in which they reside. Consistent with longstanding Medicaid requirements, room and board costs are not covered under Medicaid and remain separate from Medicaid-covered personal care services.

The State will also apply a beneficiary liability methodology under which eligible individuals may contribute a portion of their available income toward the cost of Medicaid-covered personal care services after application of allowable deductions, allowances, and room and board obligations. This methodology is functionally aligned with Medicaid post-eligibility treatment-of-income principles and is intended to ensure consistency with existing Medicaid long-term services and supports financing approaches. The beneficiary liability methodology is not a premium, copayment, deductible, or other form of Medicaid cost sharing.

Enrollment and Fiscal Projections

The demonstration is projected to serve approximately 6,000 individuals statewide at full implementation. Enrollment is expected to phase in gradually, beginning with approximately 3,000 individuals at implementation and increasing over an estimated 11-month period as outreach, education, and beneficiary awareness efforts support enrollment growth to the projected full enrollment level.

Setting	Year 1		Year 2		Year 3		Year 4		Year 5	
	Member Months	Federal Expenditures	Member Months	Federal Expenditures	Member Months	Federal Expenditures	Member Months	Federal Expenditures	Member Months	Federal Expenditures
ACH	38,119	$ 40,900,399	49,451	$ 53,405,574	49,451	$ 53,753,423	49,451	$ 54,103,536	49,451	$ 54,455,930
Combo	1,359	$ 1,346,725	1,764	$ 1,758,482	1,764	$ 1,769,936	1,764	$ 1,781,464	1,764	$ 1,793,067
SCU	16,022	$ 25,330,809	20,785	$ 33,075,629	20,785	$ 33,291,061	20,785	$ 33,507,897	20,785	$ 33,726,145
Total	55,500	$ 67,577,934	72,000	$ 88,239,685	72,000	$ 88,814,420	72,000	$ 89,392,897	72,000	$ 89,975,142

Hypotheses and Evaluation

The State will conduct a comprehensive evaluation of the demonstration consistent with 42 CFR 431.424. The evaluation will assess whether the demonstration achieves its objectives related to access, continuity of care, service utilization, health outcomes, and Medicaid program expenditures. The State will engage an independent evaluator and utilize quantitative and qualitative methodologies including trend analyses, pre/post comparisons, and comparison group analyses where feasible.

The following hypotheses and research questions will be evaluated during the demonstration period:

Hypothesis	Research Questions
1. Aligning eligibility criteria with appropriate care settings reduces Medicaid expenditures by shifting utilization from institutional LTSS to PCS in community-based settings.	• Does the demonstration reduce Medicaid spending on institutional LTSS? • Does PCS spending increase following implementation? • What is the net effect of the demonstration on PMPM Medicaid LTSS expenditures?
2. The demonstration increases access to PCS among eligible individuals in adult care homes and special care units.	• Does the demonstration increase the proportion of eligible individuals receiving PCS? • Does PCS utilization increase post-implementation?
3. Access to PCS reduces avoidable transitions to institutional settings and improves care stability.	• Does the demonstration reduce Medicaid-paid nursing facility admissions? • Does it reduce short-term institutional placements? • Does it improve continuity in residential settings?
4. Access to PCS supports continuity of care and functional stability by helping eligible individuals remain in community-based settings and delaying or reducing transitions to higher levels of care.	• Does the demonstration delay or reduce transition to higher levels of care, including Medicaid-paid nursing facility admissions?

The evaluation will utilize Medicaid claims, enrollment files, prior authorization records, LTSS datasets, program administrative data, and other relevant information sources to assess demonstration performance and outcomes. Measures may include PCS utilization rates, time to service initiation, nursing facility admission rates, duration of residence in community-based settings, spending trends, continuity of PCS utilization, and other indicators associated with demonstration goals.

Waiver and Expenditure Authorities

North Carolina is requesting the following waiver authority and expenditure authorities to operate the demonstration:

1. **Comparability (Amount, Duration, and Scope)** Section 1902(a)(10)(B)

   To the extent necessary to allow the State to provide the demonstration population with a limited benefit package, consisting solely of PCS, that differs from the full North Carolina Medicaid State Plan benefit package.

The State requests expenditure authority under section 1115(a)(2) of the Social Security Act for the following:

1. **Coverage for Demonstration Population Not Otherwise Eligible**

   Expenditures for Medicaid coverage of PCS furnished to individuals who meet the demonstration eligibility criteria and who are not otherwise eligible for Medicaid under existing Medicaid pathways in the State.

2. **Limited Benefit Package**

Expenditures to provide a targeted, service-specific benefit consisting solely of PCS to demonstration enrollees in lieu of the full state plan benefit package.

Public Notice and Comment Process

In accordance with 42 CFR 431.408, the State will open a formal comment period on Sept. 10 2026, and interested parties are directed to NC Section 1115 Demonstration Waiver | NC Medicaid for a copy of all demonstration materials.

Written comments concerning the demonstration extension will be accepted starting Sept. 10, 2026, and are due Nov. 9, 2026. Comments may be sent to the following email address: **Medicaid.NCEngagement@dhhs.nc.gov** or mailed hardcopy to:
North Carolina Department of Health and Human Services
NC Medicaid Section 1115 Waiver Team
1950 Mail Service Center
Raleigh, NC 27699-1950.

You may also request a copy of the proposed demonstration application and/or a copy of submitted public comments, once available, by requesting it in writing to the mailing or email addresses listed in this notice.

The State will also be conducting public hearings to provide opportunities for stakeholder and public input on the proposed demonstration at the following dates, times, and locations:

First Public Hearing

Sept. 16, 2026 from 5:30-7 p.m.
Virtual via Microsoft Teams (Join on your computer, mobile app or room device)
Click here to join meeting
Call in (audio only)
+1 984-204-1487, 438242315# (United States)
Phone conference ID: 438 242 315#

Second Public Hearing (in person)

Sept. 29, 2026 from 2:30-4 p.m.
Greenville Convention Center
303 SW Greenville Blvd, Greenville NC 27834

Third Public Hearing (in person)

Oct. 12, 2026 from 2:30-4 p.m.
Mountain Area Health Education Center (MAHEC)
Blue Ridge A & B in the Education Building
121 Hendersonville Road, Asheville NC 28803

Fourth Public Hearing

Oct. 22, 2026 from 11:30 a.m. - 12:30 p.m.-NC Medicaid Advisory Committee (MAC) Meeting
Virtual via Microsoft Teams (Join on your computer, mobile app or room device)
Click here to join the meeting
Call in (audio only)
+1 984-204-1487, 352166225# United States
Phone conference ID: 352 166 225#

To ask questions about accessibility or request accommodations, please email Medicaid.NCEngagement@dhhs.nc.gov.

More information about the demonstration—including the full application, public comments, and hearing materials—is available at: medicaid.ncdhhs.gov/meetings-notices/proposed-program-design/nc-section-1115-demonstration-waiver

Recordings and presentation materials will be posted here after each hearing and webinar.

Questions

Questions about the proposed demonstration may be directed to Medicaid.NCEngagement@dhhs.nc.gov.

Appendix C. Tribal Consultation Documentation

Tribal or Indian Health Services (IHS) Notification:

Title or Topic of State Plan Amendment (SPA)/Waiver:	**North Carolina Personal Care Services Alignment Demonstration – Section 1115 Demonstration Application**
Contact Name, E-mail Address & Telephone Number:	**Todd Baustert, todd.baustert@dhhs.nc.gov, (919) 215 - 5605**

Check the applicable box(es):

☐ New State Plan.	☐ Amendment to be considered as new plan.
☒ New Waiver/Renewal	☐ Amendment to existing Waiver

Effective Date of SPA/Waiver: Upon CMS Approval

Reason for Proposed Change: (check the applicable box(es):

Budget Reduction: ☐ Yes ☒ No

Termination of Coverage: ☐ Yes ☒ No

Revising Methodology: ☐ Yes ☒ No

Mandatory CMS Template: ☐ Yes ☒ No

Mandate or law: ☒ Yes ☐ No. If yes, document the specific Federal statute or Regulation citation:
Section 1115 of the Social Security Act and North Carolina Session Law 2025-64 (HB 546).

Details of SPA/Waiver Change and the anticipated impact on Indians and IHS:

North Carolina is proposing a new section 1115 demonstration that would establish a targeted Medicaid eligibility pathway and limited personal care services (PCS) benefit for certain Medicare beneficiaries residing in licensed adult care homes and special care units who are not currently eligible for Medicaid-covered PCS under existing eligibility rules. The demonstration would provide access to Medicaid-covered PCS for eligible individuals with incomes up to 180 percent of the Federal Poverty Level in adult care homes and up to 200 percent of the Federal Poverty Level in special care units. The demonstration provides a limited PCS benefit and does not provide full Medicaid coverage.

The demonstration is intended to improve access to personal care services, reduce unnecessary nursing facility placement, improve continuity of care, and promote care in the most appropriate and cost-effective setting. PCS would be delivered using existing Medicaid state plan requirements, provider qualifications, reimbursement methodologies, utilization controls, and program integrity safeguards.

The State does not currently anticipate a direct impact on Indian Health Service facilities or Tribal health programs. However, eligible American Indian and Alaska Native beneficiaries residing in or seeking admission to licensed adult care homes or special care units may benefit from expanded access to Medicaid-covered PCS. The State welcomes input regarding any potential impact on Tribal members, Tribal providers, care coordination, access to services, or implementation considerations.

Indian Health Services Input on the State Plan/Waiver listed above:

Please contact me if you have any questions or would like to schedule a meeting or conference call.

FOR STATE PLAN COORDINATOR USE ONLY:

State Plan Tracking Number:_____
Waiver Tracking Number:_____