



Follow-up to Original Posted Disengagement Formulas

Aug. 10, 2021

The DHHS posted its proposed risk reserve and fund balance distribution formulas on July 29, 2021. Our goal in constructing the formulas is to create an orderly and fair process to address county disengagement and more specifically, the current Cardinal Innovations Healthcare situation.

The first priority for DHHS in this effort is to preserve as much of the Cardinal Innovations Healthcare assets as possible to be used to benefit individuals receiving services through LME/MCOs and eventually Tailored plans. We believe fund balance is an important resource for investing in critical infrastructure for the benefit of these populations

In response to comments from LME/MCOs, individual families and consumers, advocates and counties, DHHS has adjusted the fund balance formula originally posted on July 29. The comments varied across sources and, not surprisingly, sometimes recommended conflicting approaches, but several valid themes emerged that are reflected in the updated fund balance formula.

A numbers of comments suggested that we change the formula to use LME/MCO member months, reflecting either the period just prior to NC Medicaid Managed Care launch or projections for Behavioral Health and Intellectual/Developmental Disabilities (I/DDs) Tailored Plans, as the primary basis for distributing fund balance. We also received comments stating the original formula's use of service level expenditures as basis for distribution was appropriate.

The Department settled on an approach that uses calendar year 2019 member months limited to Behavioral Health I/DD Tailored Plan populations (based on modeling performed by the Department's actuary as part of the LME-MCO SFY22 capitation rate setting process) with a rural adjustment, as described below.

DHHS also received several comments asking us to change the "small county" adjustment and several comments asking us to keep it. To address the small county issue, DHHS decided to use the same "rurality" adjustment approach that the Division of Mental Health, Developmental Disabilities and Substance Abuse Services (DMH/DD/SAS) uses to make Single Stream Fund allocations. This approach does not create a cutoff at a total population of 100,000, but rather makes graduated adjustments to counties' relative shares based on how rural they are (as measured by population density).

Finally, DHHS received several comments concerned with how real property would be accounted for in the fund balance formula. We decided to remove property that is currently being used for provision of services (e.g., a group home) from the formula and will address those properties as transferred assets that do not count as part of the fund balance.

DHHS decided not to change the originally posted explanation of the timing of distribution, which will be determined once we are confident that all Cardinal Innovations Healthcare liabilities have been identified and accounted for through the method first described in our original memo. We also will identify specific expenses incurred by Vaya Health for the consolidation with Cardinal Innovations Healthcare and set aside funds to cover those expenses prior to identifying the final fund balance to be distributed.

DHHS also decided not to change the originally posted formula for distributing Risk Reserve, which will be disbursed at the time of county disengagement based on Cardinal Innovations Healthcare's CY 2019 expenditures for Medicaid beneficiaries not required to be enrolled in a Standard Plan Prepaid Health Plan (based on population modeling performed by the Department's actuaries).