Formulas Governing Transfer of Risk Reserve and Fund Balance

December 18, 2023

The following information meets the requirements of G.S. 122C-115.5(e)(1), which directs the NC Department of Health & Human Services (NCDHHS) to develop a formula or formulas to govern distribution of Risk Reserve and Fund Balance when a county or counties move from one LME/MCO and is/are received by another. In response to this directive, NCDHHS has developed the following set of formulas:

1) Risk Reserve distribution
2) Fund Balance distribution

While county movement between LME/MCOs could result from a variety of scenarios, such as LME/MCO merger or dissolution and assumption, these formulas will apply in all cases.

Risk Reserve

This formula intends to preserve for the receiving LME/MCO an amount of risk reserve that is proportionately and approximately sized to reflect the service liability moving from the "prior"[1] LME/MCO. Risk reserve is generated as a percentage of capitation revenue, which is determined in large part by the historical cost of serving a particular cohort of LME/MCO members. The formula for parsing out and distributing the risk reserve for identified counties that are moving therefore uses service costs – specifically, the % of the LME/MCO's total state fiscal year (SFY) 2023 Medicaid service costs attributable to members of the county in question (excluding expenditures for populations required to enroll in Standard Plan PHPs). This data is actual (i.e., final) and should serve as a reasonable-basis for estimating the "steady state" population and service cost liability moving between LME/MCOs.

[1] The term "prior" here refers to either an LME/MCO that is dissolving or being assumed, either wholly or in part. In the case where two LME/MCOs merge and one or more existing LME/MCOs remains as the named entity, the LME/MCOs that do not remain would be considered "prior" LME/MCOs. In the case where two or more LME/MCOs merge and operate under a wholly new name, and any county does not move to be part of this merged/new entity, the Department will need to work with the involved entities to clarify which entities shall be considered as prior; this designation will determine how the formulas are applied to apportion risk reserve and fund balance to any county moving to an LME/MCO different from the merged/new entity.

Fund Balance

This formula intends to account for all outstanding liabilities of a dissolving or merging LME/MCO and equitably apportion un-obligated fund balance associated with any county moving to a different LME/MCO[2] by focusing on the following two key issues:

1. Ensuring that any dissolving or merging LME/MCO liabilities will be paid from the available fund balance first, so that no additional state funds will be required.
2. Providing for an equitable allocation to the receiving LME/MCO of any remaining fund balance associated with counties of the dissolving or merging LME/MCO, recognizing both that fund balance is used for one-time investments in LME/MCOs and that smaller counties face different infrastructure challenges than larger counties.

A dissolving or merging LME/MCO will provide financial statements to DHHS by a date to be established by the Department. DHHS will evaluate the financial statements and any supplemental information needed to determine the amount of fund balance that must be set aside to meet all of the dissolving or merging LME/MCO's obligations and any remaining fund balance that will be available to transfer to receiving LME/MCOs with counties moving to a different LME/MCO.

Finally, the Department will apply the formula to allocate the available fund balance that will transfer with each county associated with the dissolving or merging LME/MCO. The remaining fund balance will be allocated proportionally using SFY 2023 member months (limited to Behavioral Health I/DD Tailored Plan populations) and a rurality adjustment. The rurality adjustment uses the same methodology that the Division of Mental Health, Developmental Disabilities and Substance Use Services (DMH/DD/SUS) uses to make Single Stream Fund allocations. This approach makes graduated adjustments to counties' relative shares based on how rural they are (as measured by population density). Once the funds have been allocated by county according to this formula, the Department will direct the transfer of the fund balance associated with any county moving from a dissolving LME/MCO or, in the case of a merger or assumption, moving to a third LME/MCO. The Department will require that those funds move with the county.

Comment Period

No feedback was received from LME/MCOs on posted formulas. They are considered final.

[2] Note: In the case of a wholly assumed or merged LME/MCO, the receiving or "surviving" LME/MCO will simply receive the full fund balance associated with the merging LME/MCO. In a case where one or more counties moves to a different (i.e., third party) LME/MCO, the portion of fund balance associated with that county would move with the county. The formula discussed here addresses this latter case.