3131 East Camelback Road, Suite 300
Phoenix, AZ 85016
602 522 6500 Fax 602 957 9573
www.mercer.com

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Mr. Jeffrey Simms
State of North Carolina, Office of Managed Care
Division of Medical Assistance
2516 Mail Service Center
1985 Umstead Drive
Raleigh, NC 27699-2516

Subject:
CCNC/ACCESS Cost Savings — State Fiscal Year 2005 and 2006 Analysis

Dear Jeffrey:

The State of North Carolina's (State's) Division of Medical Assistance (DMA) requested Mercer Government Human Services Consulting (Mercer) to analyze the cost effectiveness of the State's Community Care of North Carolina (CCNC)/ACCESS program for state fiscal years 2005 (SFY05) and 2006 (SFY06), covering dates of service from July 2004 to June 2006. This letter summarizes the methodology Mercer used to compare costs against benchmarks as part of the cost-effectiveness analysis for specified services provided to the Aid to Families with Dependent Children (AFDC) category of aid (COA).

Methodology

The methodology utilized in the cost-effectiveness analysis consists of two components; the actual claims experience of the CCNC/ACCESS program and the historical benchmark, to which it is compared. This methodology is consistent with the previous cost-effectiveness analysis completed for SFY04. In the following sections, the methodology used to develop these two components is described in greater detail. The section entitled "Benchmark Development," outlines the methodology used for developing the historical benchmark, while the section entitled "Actual Costs Summarization," details the actual CCNC/ACCESS experience in SFY05 and SFY06. The results of the benchmark comparison are described in the section entitled "Savings" and presented in the attachments accompanying this letter. Mercer's conclusions have been summarized and are presented in the final section entitled "Concluding Remarks.

Benchmark Development

From the previous cost-effectiveness analysis, Mercer received Statewide Medicaid claims experience and eligibility data for dates of service in SFY00, SFY01 and SFY02. The data included all COAs and all categories of service (COSs).

- **Eligibility and Benefits:** The first step in developing benchmarks was to exclude non-covered COAs and COSs from the above historical data, in order to review eligibility criteria and covered benefits specified for the cost-effectiveness analysis.
- **Data Adjustments:** The data set was then adjusted to reflect pharmacy rebates, third-party liability recoveries, cost settlements and fraud and abuse recoveries influencing the overall cost of the CCNC/ACCESS program. Where appropriate, these adjustments have been updated to reflect the most recent state-specific information. Additionally, the benchmark data was adjusted to reflect various programmatic changes, all of which were only applicable to the SFY06 time period. Therefore, the SFY06 benchmark data was adjusted to reflect the inclusion of newly eligible populations, the impact of the Part D prescription drug benefit and a change in reimbursement for DSH payments.
- **Processing Lag Completion:** The data set was also completed for claims processing lag. The completion factors were based on an analysis of payment run-outs by major COS.
- **Trend:** Finally, the adjusted data set was trended forward to SFY05 and SFY06 by annualized utilization and unit cost trend components.

Following these steps, the data set was summarized to produce four separate sets of Per Member Per Month (PMPM) benchmarks. The first benchmark, referred to as "Statewide," reflects fee-for-service (FFS) and CCNC/ACCESS data combined. The second benchmark, referred to as "CCNC/ACCESS-only," reflects data for the two CCNC/ACCESS programs only. These benchmarks were developed for both SFY05 and SFY06.

Actual Costs Summarization

The following three steps were used to calculate actual CCNC/ACCESS program PMPM costs for SFY05 and SFY06 from the State's data:

- **Raw Actual Cost Data:** CCNC/ACCESS program claims experience and eligibility data were obtained from the State for dates of service from July 2004 – June 2006 with payment run-out through February 2007.

- **Data Adjustments:** The actual cost data set was then adjusted to reflect pharmacy rebates, third-party liability recoveries, cost settlements and fraud and abuse recoveries, which influence the overall cost of the CCNC/ACCESS program.
- **Processing Lag Completion:** The data set was also completed for claims processing lag. The completion factors were based on an analysis of payment run-outs by major COS.

Savings

Mercer's comparison of the actual SFY05 and SFY06 CCNC/ACCESS PMPMs, adjusted for the various considerations mentioned above, to the Statewide and CCNC/ACCESS-only benchmarks for SFY05 and SFY06 are shown in the attachments accompanying this letter. Attachments 1 – 4 detail the cost comparisons for SFY05 and Attachments 5 – 8 detail the cost comparisons for SFY06.

Attachments 1 and 2, presented by COS and rate cell summarizations respectively, measure the savings attributable to the CCNC/ACCESS program, when compared to the Statewide benchmark for SFY05. Similarly, Attachments 5 and 6 measure the savings for SFY06, when compared to the Statewide benchmark.

Attachments 3 and 4, presented by COS and rate cell summarizations respectively, measure the savings generated by the CCNC/ACCESS program, as it compares to the CCNC/ACCESS-only benchmark for SFY05. Similarly, Attachments 7 and 8 measure the savings for SFY06, when compared to the CCNC/ACCESS-only benchmark.

Similar to previous cost-effectiveness analyses, the CCNC/ACCESS program continues to be far less expensive than the FFS program for the AFDC COA, as seen in Attachments 1 and 2 for SFY05 and in Attachments 5 and 6 for SFY06. The CCNC/ACCESS program also continues to improve upon itself by holding or lowering costs, as seen in Attachments 3 and 4 for SFY05 and in Attachments 7 and 8 for SFY06. Savings by COS and rate cell are shown in the attachments; some highlights are as follows:

- Inpatient services continue to cost significantly less under the CCNC/ACCESS program when compared with FFS.
- The CCNC/ACCESS program displays considerable savings for the < 1 year Male and Female (M&F) rate cell when compared with FFS.

- Actual outpatient and emergency room trends have moderated significantly in SFY05 and SFY06 from previous periods.

Note: Increased costs for certain COSs or rate cells do not necessarily indicate undue inflation. Analyses to investigate the causes of PMPM cost movements, such as morbidity differences, comprehensiveness of care and quality of care, may be considered by the State to explain cost differences as an area of success or an area of concern.

Also, a reduction to savings from the previous SFY04 analysis for a particular COS, such as outpatient services, does not necessarily indicate worsening experience. In this instance, the benchmark trends were significantly reduced from the previous analysis to reflect the improving actual experience (lower trends) evidenced in the SFY05 and SFY06 CCNC/ACCESS data. This indicates the CCNC/ACCESS program continues to improve upon itself by holding or lowering costs for this service.

Mercer's best point estimates of savings are provided in Attachments 1 – 8, while range estimates of savings are as follows:

- In comparison to what the Statewide model would have cost in SFY05 and SFY06 for the number of CCNC/ACCESS program eligibles, the CCNC/ACCESS model saved approximately $218 – $240 million in SFY05 and approximately $284 – $314 million in SFY06.
- In comparison to what the CCNC/ACCESS model would have cost in SFY05 and SFY06 without any concerted efforts to control costs, the program saved approximately $77 – $85 million in SFY05 and approximately $154 – $170 million in SFY06.

Concluding Remarks

To enable drawing an actuarially sound conclusion, Mercer compared the actual costs with the benchmarks. Since the results based on this approach show positive savings, Mercer concludes that the CCNC/ACCESS program is indeed generating savings for the specified services provided to the AFDC COA.

If you have any questions, please do not hesitate to call me at 602 522 6564, or Jeff Smith at
602 522 6562.

Sincerely,

Kevin Lurito, FSA, MAAA

KL/EP/cej

Copy: Ed Fischer, Mercer
Jeff Smith, Mercer

Attachments
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