



Healthcare Guide

Two issues have dominated the healthcare debate in North Carolina over the past four years. The first of these is mental health reform. The second, harder to quantify, is the slow march toward taxpayer-funded universal healthcare. In recent years, the General Assembly has inched closer to single-payer healthcare by extending insurance to children from middle-class families and by creating a state-subsidized high-risk insurance pool. Other healthcare policy developments include a Medicaid funding swap between the counties and the state, a 700 percent increase in the cigarette tax, and a \$1 million cap on medical malpractice suits submitted to binding arbitration (S.L. 2007-541). Finally, N.C. Medicaid spending has tripled over the past 10 years, hitting \$11.3 billion for FY2007-08, \$3.4 billion of which was state/county expenditures.

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MENTAL HEALTH REFORM

North Carolina's mental health system is anchored by 4 state psychiatric hospitals and 25 Local Management Entities (LMEs). The system itself is administered by the Division of Mental Health, Developmental Disabilities and Substance Abuse Services within the Department of Health and Human Services (DHHS). Owing to comprehensive reform legislation passed in 2001 (S.L. 2001-437), the regional LMEs are responsible for planning and managing mental health services separately delivered by private providers. By all accounts, the 2001 reforms have been inadequate. Some critics see this failure as proof that the state needs to reassert control while others argue that private providers have been hamstrung by authorization and payment delays, confusing regulatory controls and burdensome documentation requirements.

Federal Funding Lost for State Hospitals ... In August 2007, Broughton Psychiatric Hospital in Morganton is decertified, resulting in the loss of approximately \$12 million in annual Medicaid/Medicare funding. After six warnings, Cherry Hospital of Goldsboro is also decertified in September 2008, resulting in a loss of almost \$10 million in annual federal funding. Meanwhile, the opening of the \$138 million Central Regional Hospital in Butner is repeatedly delayed – owing to a fire in the new building, numerous safety violations, and delays in staff acquisition and training. The hospital finally opens in July 2008, but by September is already at risk for losing federal funding. The loss of federal funding for Broughton and Cherry means state taxpayers must make up the difference to keep the hospitals running.

The National Alliance on Mental Illness gives North Carolina's mental health system a grade of D+. Yet North Carolina ranks 21st in terms of overall mental health spending.

Breakdowns in the System ... In December 2006, mental health providers complain that ValueOptions, Inc., a private contractor hired by DHHS, is taking months to authorize services for Medicaid patients. A year later, state officials discover that providers are overcharging for community health services while treatments for more serious conditions are not being funded. The state reportedly overpaid more than \$400 million for the services, leading federal investigators to withhold \$138 million in reimbursements. In May 2007, DHHS Secretary Carmen Hooker Odom resigns. After her departure, Gov. Mike Easley (D) claims that both he and Hooker Odom "vigorously opposed" the 2001 reforms. In March 2008, the governor is caught up in a public records scandal regarding his disposal of private correspondence from Hooker Odom.

Reform of the Reform? ... After intense lobbying by the N.C. Mental Health Association, the 2007 General Assembly passes a mental health parity coverage mandate (S.L. 2007-268) requiring insurance providers to treat mental illnesses as they would any physical illness. In March 2008, Gov. Easley proposes pulling back from key elements of the 2001 reform. Subsequently, the FY2008-09 budget ends the state's contract with ValueOptions and returns the authorization of publicly funded mental health services to select LMEs. In response to abuses at Broughton and Cherry, the General Assembly also passes legislation (S.L. 2008-131) requiring a county medical examiner to review all deaths at state mental health hospitals. Finally, in 2008, legislators institute a gun ban for persons involuntarily committed for mental health treatment or those deemed a danger to themselves or others (S.L. 2008-210).

UNIVERSAL HEALTHCARE

Over the past four years the advocates of taxpayer-funded healthcare have become more emboldened – as evinced by Rep. Verla Insko's (D-Orange) attempt (HB 901) at requiring the state to guarantee regular healthcare to every N.C. resident. During the 2007 session, Rep. Insko, along with Rep. Hugh Holliman (D-Davidson), likewise acknowledged that Holliman's bill (S.L. 2007-532) to create a high-risk insurance pool is "a first step toward universal healthcare for North Carolinians." Once the high-risk pool was established, the General Assembly expanded taxpayer subsidized health insurance to children from families earning 300 percent of the federal poverty level (FPL). The next step, currently being promoted by Lt. Governor Bev Perdue (D), will be to expand coverage to parents of low-income children.

High-risk Pool ... The pool is a nonprofit entity run by a board of directors appointed by the governor and top legislative leaders. Eligible enrollees include persons refused health insurance coverage for health reasons; those who can only obtain coverage with a conditional rider; and those who can only obtain coverage at a rate higher than the pool rate (set at between 150 percent to 200 percent of individual standard rates). Premium subsidies will be provided to enrollees who earn up to 300 percent of FPL (\$61,950 for a family of four).

NC Kids Care ... The FY2007-08 budget (S.L. 2007-323) extends taxpayer-subsidized insurance to children from families earning up to 300 percent of FPL (half of all families in North Carolina). Implementation of the new program, however, is halted owing to an August 17, 2007, federal directive requiring states to cover 95 percent of low-income children (200 percent FPL) before using federal funding to cover families earning more than 250 percent FPL. According to an October 2007 Civitas poll, voters are of two minds regarding universal healthcare: a slim majority (56 percent) support federally guaranteed healthcare coverage, even as 71 percent oppose taxpayer-funded health insurance for middle-class families (those earning > \$41,000).

Medicaid Swap/Tax Increase

2007: In exchange for taking over county Medicaid funding, the state received 20% (½ cent) of the county share of sales tax revenue. In return, local governments were given the (unpopular) option of tripling the real estate transfer tax or raising the sales tax by ¼ cent. The anticipated Medicaid burden for counties alone was expected to reach \$571 million for FY2007-08.

Retiree Health Benefits

As of 2005, the state was liable for \$23.8 billion in unfunded retiree health premium benefits – 113% of the entire FY2007-08 General Fund budget. Yet, legislators refused to consider a 2007 proposal (HB 1987) that would have required state agencies to increase payroll contributions to fund retiree health benefits.

Smoking

2005-2006: Cigarette tax increased from 5¢ to 35¢ per pack.

2005 & 2007: Attempted ban on smoking in public and work places (HB 76; HB 259).

2005-2008: Bans on tobacco use in state prisons; smoking inside all state government buildings; in long-term care facilities; and elsewhere. In 2007, legislators also required all cigarettes to be "fire safe."

2007: Creation of UNC Cancer Research Fund funded at \$50 million annually and partially paid for with a 7% sales tax increase on non-cigarette tobacco products.