



December 10, 2025

Administrator Mehmet Oz
Centers for Medicare & Medicaid Services
Department of Health and Human Services

Re: Medicaid Managed Care Actuarial Soundness in North Carolina

Dear Administrator Oz,

On behalf of the Medicaid Health Plans of America (MHPA), we thank you for the opportunity to share our perspective on actions impacting the state of North Carolina's Medicaid program taken by North Carolina's Department of Health and Human Services (NCDHHS) in response to the Medicaid rebase for State Fiscal Year 2025-2026 budget. In particular, we are concerned that the state's intended use of the de minimis rate-adjustment authority as part of its overall efforts to address a budget shortfall raises significant questions about actuarial soundness and long-term financial sustainability of the state's Medicaid program.

MHPA is the only national trade association with a sole focus on Medicaid, representing more than 160 Medicaid managed care organizations (MCOs) serving nearly 51 million Medicaid enrollees in 40 states, the District of Columbia and Puerto Rico. MHPA's members include both for-profit and non-profit, national, regional, as well as single-state health plans that compete in the Medicaid market. Nearly three-quarters of all Medicaid enrollees receive health care through MCOs, and MHPA provides research and advocacy services that support policy solutions to enhance the delivery and coordination of comprehensive, cost-effective, and quality health care for Medicaid enrollees.

As stated in its August 18th letter¹ to the North Carolina General Assembly, the NCDHHS expressed its intention to implement a 1.5% de minimis rate change to achieve a 1.5% reduction in capitation rates paid to Medicaid managed care organizations that would go into effect retroactively to July 1st. The de minimis rate reduction would be in addition to Medicaid provider rate reductions and the elimination of certain Medicaid services effective October 1, 2025.

Actuarial soundness is a critical safeguard that is required by federal law and reiterated in CMS regulations and guidance. Actuarial soundness is a "north star" for the partnership between states and MCOs, ensures adequate payments to providers, and supports the overall sustainability of the Medicaid program. Federal regulations at 42 CFR § 438.4 require Medicaid managed care capitation rates to be actuarially sound, meaning they must be

¹ https://ncnewsline.com/wp-content/uploads/2025/08/Medicaid-Rebase-NCGA-Letter-August-2025_FINAL.pdf?utm_source=chatgpt.com



developed according to generally accepted actuarial principles and practices. Actuaries developing these rates must follow Actuarial Standards of Practice (ASOP) 49², which provides professional guidance specific to Medicaid managed care rate-setting and reinforces the requirement that rates reflect sound actuarial judgment.

The de minimis rate adjustment provision was established in the FY 2016 Medicaid and CHIP Managed Care Final Rule³ to simplify administrative processes for small programmatic changes while maintaining actuarial soundness. Federal regulations at 42 CFR § 438.7(c)(3) permit states to make a de minimis capitation rate adjustment of up to ±1.5% for limited programmatic changes without submitting a new rate certification. However, any such adjustment must still comply with contract-modification requirements under § 438.3(c) and adhere to the actuarial soundness standards outlined in § 438.4(b)(1). In addition, CMS retains the authority to require documentation demonstrating that the adjusted capitation rates continue to meet the requirements of §§ 438.3(c) and (e) and 438.4(b)(1). CMS may also request documentation to verify compliance, as reaffirmed in the 2025–2026 Medicaid Managed Care Rate Development Guide⁴.

The state of North Carolina plans to recertify rates based on the provider cuts that took effect October 1, 2025. This 1.5% reduction would be in addition to the recertification. As noted in the August 18th letter, “NCDHHS uses the lowest rate possible within an actuarially sound rate range, however, CMS allows states the flexibility to adjust rates up or down by 1.5% without requiring additional actuarial certification. This gives NCDHHS the flexibility to make the reduction and still comply with federal requirements.” We disagree with this interpretation of federal policy. North Carolina’s de minimis rate reduction is not associated with limited programmatic changes, but is instead intended to broadly address the state’s budget shortfall. This clearly falls outside the regulatory parameters established for the de minimis rate change flexibility.

Moreover, the de minimis rate reduction must still adhere to the actuarial soundness standards codified at § 438.4(b)(1). However, coupled with the provider rate cuts effective in October, NCDHHS’s proposed de minimis rate reduction would move health plan rates outside of the actuarially sound range.

The precedent set by allowing de minimis rate reductions without programmatic or contractual basis will undermine the rate setting process and create instability within the Medicaid program. We respectfully request that CMS exercise its full authority to ensure actuarially sound rates are set and maintained and we request that CMS disallow implementation of the de minimis reduction pending NCDHHS providing documentation of compliance with § 438.4(b)(1). Furthermore, CMS should evaluate North Carolina’s justification for its use of the 1.5% de minimis rate reduction effective retroactively to the beginning of the contract year. We further encourage CMS to clarify through guidance that

² https://www.actuarialstandardsboard.org/wp-content/uploads/2015/03/asop049_179.pdf

³ <https://www.govinfo.gov/content/pkg/FR-2016-05-06/pdf/2016-09581.pdf>

⁴ <https://www.medicaid.gov/medicaid/managed-care/guidance/rate-review-and-rate-guides>



de minimis rate adjustments are reserved for specific, limited purposes and circumstances with clear programmatic or actuarially based findings. We do not believe the intention of the de minimis rate flexibility is to address state budget gaps by knowingly underfunding managed care rates.

We thank CMS for considering our perspective and our recommendations. Please feel free to reach out to me directly at sattanasio@mhcpa.org with any questions or should you need any additional information.

Sincerely,

/s/

Shannon Attanasio
Senior Vice President, Government Relations, Policy and Advocacy

Cc: Dan Brillman, Deputy Administrator and Director, CMCS
Caprice Knapp, Principal Deputy Director, CMCS
Grant Thomas, Senior Advisor, CMCS
Andrew Johnson, Senior Advisor, CMCS
John Giles, Director, Managed Care Group, CMCS