



**STATE OF ARKANSAS**

**ASA HUTCHINSON  
GOVERNOR**

December 29, 2015

The Honorable Sylvia Mathews Burwell  
Secretary of the U.S. Department of Health and Human Services  
330 Independence Avenue, S.W., Room 4257  
Washington, DC 20201

Dear Madam Secretary:

On behalf of the citizens of Arkansas, I am writing to notify you that Arkansas intends to amend the State's current 1115 demonstration waiver (the "Demonstration") to incorporate several critical changes. At present, the Demonstration as previously approved is scheduled to sunset at the end of 2016.

Arkansas's current Demonstration provides roughly 225,000 low-income Arkansans with access to vital health care services. Earlier this year, the State began a process to evaluate the Demonstration and consider potential amendments to advance the State's coverage goals; namely, that coverage is affordable, competitive, market-based and based on the principles of choice, competition, improved quality of care and consumer responsibility. In order to thoroughly evaluate options for improving the program I convened the Governor's Advisory Council on Medicaid Reform ("Council"), and the Legislature established the Arkansas Legislative Task Force on Health Care Reform ("Task Force").

I will be requesting key changes to ensure that Arkansas Medicaid promotes personal responsibility, incentivizes work and ensures program integrity. For that reason, I anticipate submitting an application to amend the Demonstration in Spring of 2016 to replace the Health Care Independence Program with a new program reflecting these improvements: Arkansas Works.

Based on the work of the Task Force and the Council, I anticipate that Arkansas Works will include some or all of the following features:

1. Encourage employer-based insurance by implementing mandatory employer-sponsored premium assistance. This requires Medicaid-eligible individuals with access to cost-effective ESI to enroll in employer coverage with Medicaid (a) covering the employee's premium and cost sharing that might exceed Medicaid levels; and (b) providing any benefits not covered by ESI but offered by Medicaid.

2. Incentivize work by implementing work training referral requirements along with the continued discussion with the administration on the need for specific work requirements. Also, the state should offer enhanced coverage options or other incentives for those who are in compliance and who meet the goals of a Healthy, Active Arkansas.
3. Personal responsibility including Healthy, Active Arkansas emphasis and incentives. Premium payments should be required for those with incomes above 100% of FPL (similar to the marketplace of 2%). Additionally other options should be considered to include some contribution for those above 50% of FPL with premiums waived for those who accomplish objectives of a Healthy, Active Arkansas, e.g. wellness exam.
4. Program Integrity:

- Restrictions on coverage, or enhanced cost sharing, for individuals with substantial assets
- Eliminating 90-day retroactive eligibility
- Expeditious timeframe for terminating the waiver
- Providing care coordination for individuals who are medically frail
- Conducting enhanced data matches to verify participant income

To ensure those program changes can be accomplished with a minimum of disruption, I am hereby notifying you that Arkansas intends to amend the current waiver. Such an amendment will extend the expiration date of the Demonstration beyond its scheduled expiration in December 31, 2016. As required by Section 1115 of the Social Security Act and the Special Terms and Conditions governing the Demonstration, this letter serves as my formal request. The Arkansas Department of Human Services will submit the required application after the completion of the notice and comment period, no later than December 31, 2015.

We appreciate the longstanding partnership with your department, and we look forward to your continued support as we develop innovative approaches to providing high quality coverage and encouraging progression up the economic ladder.

Sincerely,



Asa Hutchinson

## EXTENSION APPLICATION

The State of Arkansas is requesting changes and an extension of its 1115 demonstration waiver (the “Demonstration”) first approved on September 27, 2013 and set to expire on December 31, 2016.

### **Demonstration Summary**

Under the current Demonstration, the State uses premium assistance to purchase qualified health plans (QHPs) offered in the individual market through the Marketplace for individuals eligible for expanded coverage under Title XIX of the Social Security Act who are either (1) childless adults between the ages of 19 and 65 with incomes below 138% of the federal poverty level (FPL) who are not enrolled in Medicare or (2) parents between the ages of 19 and 65 with incomes between 17 and 138% FPL who are not enrolled in Medicare (collectively “Health Care Independence Program beneficiaries”). Individuals who are medically frail do not participate in the Demonstration. Health Care Independence Program beneficiaries currently receive the Alternative Benefit Plan (ABP) through a QHP that they select and have cost sharing obligations consistent with both the State Plan and with the cost-sharing rules applicable to individuals with comparable incomes in the Marketplace.

The current Demonstration provides integrated coverage for approximately 225,000 low-income Arkansans, leveraging the efficiencies of the private market to improve continuity, access, and quality for Health Care Independence Program beneficiaries. Preliminary evidence indicates that the current Demonstration has furthered the objectives of Title XIX by promoting continuity of coverage for individuals, improving access to providers, smoothing the “seams” across the continuum of coverage, and furthering quality improvement and delivery system reform initiatives. Additionally, by expanding the size of the population enrolling in QHPs offered through the Marketplace, the Demonstration is driving health care system reform and more competitive premium pricing for all individuals purchasing coverage through the Marketplace.

### **Changes to the Demonstration**

The State anticipates submitting an application to amend the Demonstration in Spring of 2016 to replace the Health Care Independence Program implemented under the current 1115 waiver authority with a program reflecting the features now under consideration by the Governor, the Arkansas Legislative Task Force on Healthcare Reform, and the Arkansas Legislature.

The amendment application may request authority to include the following features in any successor to the Health Care Independence Program:

- Requiring premium payments for individuals in the new adult group with incomes above 100% of the federal poverty level (FPL)
- Supporting employer-sponsored health insurance, when offered
- Promoting work through work training referral requirement
- Offering access to additional benefits (such as dental coverage) to enrollees who demonstrate certain healthy behaviors or comply with other program requirements

- Requesting additional flexibility with respect to Demonstration termination
- Strengthening program integrity

Additional information on the features now under consideration by the Governor, the Arkansas Legislative Task Force on Healthcare Reform, and the Arkansas Legislature are available here:

- *Report to Task Force by The Stephen Group:*
  - Executive Summary:  
<http://www.arkleg.state.ar.us/assembly/2015/Meeting%20Attachments/836/I14099/TSG%20Volume%20I%20Executive%20Summary.pdf>
  - Volume I: Findings:  
<http://www.arkleg.state.ar.us/assembly/2015/Meeting%20Attachments/836/I14099/TSG%20Volume%20I%20Findings%20Report%20amended%20to%20include%20all%20Appendix%20references.pdf>
  - Volume II: Recommendations:  
[http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0ahUKewjBqP7P7bjJAhXGJCYKHfarC8IQfgggMAE&url=http%3A%2F%2Fwww.arkleg.state.ar.us%2Fassembly%2F2015%2FMeeting%2520Attachments%2F836%2FI14099%2FTSG%2520Volume%2520II%2520Recommendations.pdf&usg=AFQjCNHDSRa2QuY7wxQfeUQ5uVAFCI6\\_ag&bvm=bv.108194040,d.eWE](http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0ahUKewjBqP7P7bjJAhXGJCYKHfarC8IQfgggMAE&url=http%3A%2F%2Fwww.arkleg.state.ar.us%2Fassembly%2F2015%2FMeeting%2520Attachments%2F836%2FI14099%2FTSG%2520Volume%2520II%2520Recommendations.pdf&usg=AFQjCNHDSRa2QuY7wxQfeUQ5uVAFCI6_ag&bvm=bv.108194040,d.eWE)
- *Letter from the Governor to the Legislature:*
  - [http://ee-governor-2015.ark.org/images/uploads/20151027\\_Letter\\_to\\_Leg\\_on\\_TSG\\_Final.pdf](http://ee-governor-2015.ark.org/images/uploads/20151027_Letter_to_Leg_on_TSG_Final.pdf)

### **Waiver and Expenditure Authorities**

The State requests extending the following waivers and expenditure authorities:

- Waiver of § 1902(a)(10)(B): To the extent necessary to enable the state to impose targeted cost sharing on individuals in the eligibility group found at Section 1902(a)(10)(A)(i)(VIII) of the Act; to the extent necessary to enable the state to impose targeted cost-sharing on individuals in the eligibility group found at Section 1902(a)(10)(A)(i)(VIII) of the Act who are not current with their Independence Account payments.
- Waiver of § 1902(a)(23): To the extent necessary to enable Arkansas to limit beneficiaries' freedom of choice among providers to the providers participating in the network of the Health Care Independence Program beneficiary's Qualified Health Plan.
- Waiver of § 1902(a)(13) and §1902(a)(30): To the extent necessary to permit Arkansas to provide for payment to providers equal to the market-based rates determined by the Qualified Health Plan providing primary coverage for services under the Demonstration.
- Waiver of § 1902(a)(54) insofar as it incorporates § 1927(d)(5): To permit Arkansas to require that requests for prior authorization for drugs be addressed within 72 hours, rather than 24 hours as is currently required in their state policy. A 72- hour supply of the requested medication will be provided in the event of an emergency.

- Waiver of § 1902(a)(14) insofar as it incorporates § 1916 and §1916A: To the extent necessary to enable the state to collect monthly contributions for individuals with incomes between 50 and 133 percent of the federal poverty level (FPL).
- Expenditure Authority for Premium Assistance and Cost-Sharing Reduction Payments: To make expenditures for part or all of the cost of private insurance premiums, and for payments to reduce cost sharing for certain individuals eligible under the approved state plan new adult group described in section 1902(a)(10)(A)(i)(XVIII) of the Act.

The State may request additional waivers in its subsequent waiver amendment to reflect changes to the Demonstration currently under consideration by the Governor, the Arkansas Legislative Task Force on Healthcare Reform, and the Arkansas Legislature.

### **Summary of Qualify Assurance Monitoring**

Arkansas produces annual and quarterly progress reports for the Demonstration. These reports provide information regarding program implementation and describe both operational challenges and key achievements. Arkansas has consistently reported positive outcomes from the Health Care Independence Program. Key successes include positive take up rates, resulting in the nation's largest decrease in the uninsured rate, according to a Gallup poll;<sup>1</sup> large reductions in uncompensated care costs; and a positive impact on premium rates in the State's individual Marketplace. The State has also addressed a number of operational challenges in the implementation of this program, including to a number of challenges related to the development of a new eligibility and enrollment system. These reports are available from the Centers for Medicare & Medicaid Services website, at the following link:

[http://www.medicaid.gov/medicaid-chip-program-information/by-topics/waivers/waivers\\_faceted.html](http://www.medicaid.gov/medicaid-chip-program-information/by-topics/waivers/waivers_faceted.html).

### **Financial Performance**

Working with the State, both Optumas and the Arkansas Center for Health Improvement (ACHI) have conducted detailed analyses of the Demonstration's experience to-date compared to the budget neutrality cap in place as part of the Section 1115 waiver requirements.<sup>2</sup> Budget neutrality requirements apply to the aggregate experience of the waiver from implementation to expiration, and using enrollment information for 2014 and 2015 actual experience is below the budget neutral cap. Although expenditures in the first year of the Demonstration exceeded the budget neutrality cap, 2015 experience has come in approximately 2% below the 2015 cap. The lower expenditures compared to the budget neutrality cap are driven primarily by expanded carrier competition from 2014 to 2015 and programmatic changes limiting plan offerings available to Demonstration participants. Demonstration expenditures made thus far are subject to reconciliation for the Medical Loss Ratio and Advanced Cost Sharing Reduction payments. Reconciliation values for 2014 and 2015 and the corresponding impact on budget neutrality are not yet known.

---

<sup>1</sup> See <http://www.gallup.com/poll/184514/uninsured-rates-continue-drop-states.aspx>

<sup>2</sup> Optumas analysis utilizes carrier rates for CY14 and CY15 and enrollment data through March 2015. ACHI analysis utilizes carrier rates for CY14 and CY15 and enrollment data through September 2015.

**Demonstration Evaluation**

Evaluation activities to date include designing and fielding a survey to program recipients and comparison populations, collection and cleaning of claims data for analyses, delineating relevant programmatic costs, and convening a national advisory committee to elicit feedback on the analytic plan and cost-effectiveness approach. Analyses of survey results are underway, with analyses of claims data expected for the interim report due by April 2016 in which the evaluation team will focus on the first year experiences of the program (2014). Evaluation activities during the 2015-16 period will be included in a final report on the first three years of the demonstration and modifications to the evaluation design to accommodate replacement programs as they emerge.

**Public Notice & Comment**

Arkansas received no public comments regarding the extension of its 1115 demonstration waiver for the Health Care Independence Program.

203305538.1