EXHIBIT D-1b

STATE OF ARKANSAS
Department of Finance and Administration

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October 26, 2018

The Honorable Jim Hendren, Co-Chair
The Honorable Lane Jean, Co-Chair
Tax Reform and Relief Legislative Task Force
Multi-Agency Complex – Room A
1 Capitol Mall
Little Rock, Arkansas 72201

Re: Proposed Repeal of the Insurance Premium Tax Credit

Chairmen Hendren and Jean:

The Tax Reform and Relief Legislative Task Force has asked the Department and Finance and Administration (DFA) to research the following question in preparation for its October 29, 2018 meeting:

If the Insurance Premium Home Office Tax Credit is repealed, and this causes insurers to increase health insurance premiums, will this endanger the state's budget neutrality requirements for the Arkansas Works Program as a Section 1115 waiver, causing the state to owe money to the federal government?

RESPONSE

Generally, the Insurance Premium Home Tax Credit may be repealed in a way that will not cause Arkansas to breach the budget neutrality provisions of the § 1115 waiver for Arkansas Works. The § 1115 Waiver, as DFA understands it, requires Arkansas to ensure that the budget of the insurance provider of programs under Arkansas Works remains neutral. This is done by means of the payments from the Department of Human Services (DHS) to the carriers based on the rates that are approved by the Arkansas Insurance Department (AID).

Insurance rates are approved by AID for providers generally, and not just within the context of the Arkansas Works program and Medicaid Expansion under the § 1115 waiver. Generally, rates for an upcoming calendar year are set by the end of August. According to AID, there are no provisions for an emergency change in the middle of a plan year.

Once insurance rates for applicable coverage are set, DHS looks to the requirements of the § 1115 waiver and the State's budget for determining what the State will pay for the plans under the expansion program. This is done through two-line items: (1) the listed premium

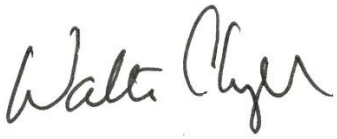
amount; and (2) a cost sharing reduction payment. The cost sharing reduction payment is a flexible tool that DHS can use to ensure that it meets the budget neutrality requirements of the § 1115 waiver each calendar year. Rather than negotiating over the amount that AID has approved for a policy premium, DHS may alter from year to year the cost sharing reduction portion of the proposed payments.

If the General Assembly were to remove the Insurance Premium Home Tax Credit, the effective date of the repeal could be set to coincide with the upcoming calendar year to match the timeline for DHS to negotiate payment amounts under the requirements of the § 1115 waiver. This means that the budget neutrality would be maintained and no repayments would be required.

The one possible set of circumstances that could trigger a breach of the budget neutrality is if there were a mid-calendar year premium adjustment by the insurance provider. If an insurance provider was able to increase premiums during the year, without DHS being able to adjust the cost sharing payment, the amount that was received by the provider could exceed the amounts authorized under the § 1115 waiver. According to AID, this is not possible and that as long as DHS adjusts the cost sharing payment, the budget neutrality provisions should not be triggered if insurance premiums are raised.

Should the Committee have any questions or require any additional information, please do not hesitate to contact me.

Sincerely,



Walter Anger
Deputy Director and
Commissioner of Revenue