



STATE OF ARKANSAS
ASA HUTCHINSON
GOVERNOR

October 27, 2015

Dear Legislative Task Force Members:

Over the past two weeks the public has had an opportunity to view and discuss The Stephen Group (TSG) report. John Stephen and his staff did a commendable job in reviewing the current status of our Medicaid program and presenting options for reform as we debate the future of Medicaid in Arkansas. The purpose of this letter is to provide task force members with my perspective on the report and the next steps necessary to prepare for implementing a comprehensive "Arkansas Works" plan to replace the private option when it expires on December 31, 2016.

In August, I presented seven Medicaid reform principles to your panel and it was my hope that these principles would serve as a framework for decisions the legislature would make in the coming months. I was pleased to see that many of TSG's recommendations embraced these principles and commented favorably on at least five of them. These include: Support for employer-sponsored health insurance where it is offered; the requirement for cost-sharing -- in the form of premium payment contributions for the expanded Medicaid population; efforts to promote work through work training referrals; the importance of generating cost savings in the traditional Medicaid program; and requirements for greater program integrity in the delivery of Medicaid services.

The TSG report commented unfavorably on two elements that I presented. TSG stated that elimination of "non-emergency transportation payments" would actually hurt us in a rural state and would result in a reduced level of access to health care and potentially higher cost outcomes. Based on the TSG comments and my dialogue with many legislators and health care providers, I am supportive of eliminating this element.

The second element on which TSG expressed reservation is the division of the expanded Medicaid population between those who would continue with commercial insurance and those who would be assigned to traditional Medicaid. While this proposal was designed to encourage and reward work, I am convinced that it would be difficult to administer and the impact on premium payments is

uncertain. For these reasons, I would ask the legislature to no longer consider this proposal as operative.

In addition to TSG expressing support for the five elements discussed above, the report offered a number of excellent ideas to enhance the overall objectives of reducing costs while expanding health care access. One idea was the "best in the SEC" healthy living initiative. This is consistent with my recent announcement of a "Healthy Active Arkansas" plan which is designed to promote, incentivize and develop healthy and active lifestyles for Arkansans, whether on Medicaid or on private insurance. I would ask that any recommendation of the Task Force include an element for encouraging and rewarding healthy living.

I am confident that the legislature will find common ground on these elements and the TSG recommendations. In addition, I wanted, to provide some additional comments for your consideration in regard to other portions of the TSG's report.

First, as I previously noted, the private option ends on December 31, 2016. You convened this panel to provide a health care alternative for those who are currently receiving private insurance with federal tax dollars. TSG's report puts forth several ideas that you should consider to strengthen the program, including premiums for enrollees making in excess of the federal poverty level, education efforts, work referrals, and a lifetime cap on benefits. As I have stated since taking office, we must promote employer-sponsored insurance, rather than government-provided coverage, among able-bodied adults. I need your ideas on any other market-based reforms you would like to see included in our global waiver request to the Centers for Medicare and Medicaid Services (CMS). With your support, I will fight for the strongest waiver application possible, one that will promote work while protecting vulnerable populations. My staff stands ready to work with you to craft a proposal, as the support of the legislature is vital to ensuring a timely and successful waiver request with CMS.

Second, the legislature should consider adopting part of the managed care recommendations made by TSG. While the savings are significant, our efforts should be focused on more than simply reducing costs. While fiscal responsibility is important, it is even more important that we keep the people of our state healthy and by addressing their health care needs before they require expensive medical interventions. TSG makes several points regarding the benefits of utilizing managed care. It is my judgment that we should move in this direction, but only for limited and targeted populations. Currently, the state has invested substantial amounts in two new payment models: Episodes of care and patient center medical homes. These are beginning to show cost savings and should not

be abandoned. At the same time, we should pause further expansion of the episodes beyond those currently in development and add managed care as a third opportunity to reduce costs and improve care. Again, the consideration of managed care should be directed toward our high cost populations and must be accompanied by clear goals and effective oversight by the state.

One element that needs to be addressed is the program integrity recommendations of TSG report. I have previously kept you informed on my efforts to assure program integrity by proceeding with the difficult eligibility review process. TSG noted that the Lexis Nexis data search revealed that over 40,000 of the Medicaid recipients had a last known or best address as being out of state. While there may be various scenarios that explain an out of state address, it seems apparent to me that the reason thousands failed to respond to the request for income information and were subsequently stricken from the Medicaid roles is that they were in fact not eligible. Such a finding convinces me that our verification process must be continuous, rather than one that is undertaken months or years after a change in status.

TSG's report also suggests that Arkansas should place the authority for Medicaid (and related programs) identification and residency verification reviews in a stand-alone entity, either within the Department of Finance and Administration or some other agency. While I am still reviewing the specifics of this proposal, I generally think this is a more effective means of strengthening the program integrity than the current department-based process. Of course, the identity and residency verification will need to be coordinated with the eligibility review work at DHS.

Finally, we should make a broad waiver request with the current administration in Washington, D.C. If essential aspects of the waiver are not granted, we should push for additional flexibility with the next presidential administration. The political climate may change and be more receptive to further reforms of our Medicaid system; if so, I intend to take advantage of the opportunity to design a health care system in Arkansas that is market-based, innovative, efficient, and fiscally responsible.

These are not the only recommendations within the Stephen Group report which I believe hold merit, but I wanted to provide you with my thoughts as you begin consideration of each of these reforms and how they will be implemented.

Please note that there is a regulatory provision requiring my office to advise CMS of the state's intention to end the private option waiver and to

request a new waiver for "Arkansas Works" no later than twelve months prior to the expiration date of the demonstration, meaning I must notify CMS before the end of the year what direction we intend to take.

I look forward to coordinating with the legislature as we work to create a value and market-based Medicaid program that rewards work, while also protecting the most vulnerable among us.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Asa Hutchinson". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Asa Hutchinson