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MARILYN SERAFINI: Okay, folks, let's go ahead and get started. Feel free to continue to fill your coffee cups but we want to be respectful of the Governor's time so we're going to go ahead and get started. First, I want to welcome everybody this morning to the – I think this is the third in our series of briefings for reporters on healthcare – on timely and relevant healthcare topics. First, I'd like to thank our supporter in today's event, Ted Giovanis with the JKTG Foundation and also, our partner in this endeavor, *Health Affairs* and Alan Weil. So we are lucky enough to have with us today Governor Asa Hutchinson from Arkansas who's going to fill us in on what he's been going on healthcare initiatives in this state and also, some of the challenges.

So I'm going to turn this over first to Alan, who's going to properly introduce the Governor and lay the foundation for today's discussion.

ALAN WEIL: Thank you, Marilyn. I'm Alan Weil, Editor in Chief of *Health Affairs*. We're really thrilled to have this even this morning and to do it, Marilyn, with you and your team. I have to admit, as many topics as we cover in *Health Affairs*, I do have a special place in my heart for a discussion about Medicaid. Twenty years ago, I would've been here with my then Governor Roy Romer of Colorado. I was running the Medicaid agency at the time and we would've been here for the National Governor's Association meeting. And some things would've been very much the same. The states would've been concerned about the growth of the Medicaid budget. They would've been looking for more flexibility. The federal government would've been looking for more accountability. At the national level, some of the topics being discussed would have been very familiar – block grants, per capita caps. So in some respects, things are very similar even though two decades have passed. And yet, much has changed, as well, and I think that's what makes today's session so interesting.

We, of course, now have Medicaid as the largest health insurance program in the United States. And although I had to deal at the time, and governors at the time, with a sizeable share of their budget, in Medicaid, that has grown. It's also, of course, the largest source of federal revenue into states and so states have a love/hate relationship with the program.

And of course, we now are in an era of Medicaid Expansion where states are making decisions and have made decisions about whether or not to participate in the Medicaid Expansion, that Medicaid politics are now fully intertwined with the politics of the Affordable Care Act; something that we weren't thinking about twenty years ago.

It's terrific to have Governor Hutchinson here for many reasons. But as I'm sure most of you know, Arkansas has a special place in health policy when it comes to Medicaid, having broken the door open to an alternative design for Medicaid Expansion showing that it's possible to not just expand the program in a traditional way but through a federal waiver, making coverage available through the insurance exchange rather than through Medicaid. We recently published an article in *Health Affairs* showing that folks in Arkansas on that Medicaid Expansion had improvements in access comparable to those in states that had taken a more traditional approach.

But as we know, the programs are all quite new and so it's always – we're learning a lot and governors are learning a lot as they go. We're also in an era where states are looking at new waiver authority, not just the 1115 waiver authority that made Arkansas' approach available but Section

1332, which brings the exchanges into waiver possibilities. And so we have a broader waiver authority than in the past.

So that's ample – maybe excessive – introduction of the subject but hopefully, it sets the stage for the issues that we're going to talk about. So I'm thrilled to be able to introduce Governor Asa Hutchinson, Governor Arkansas. Started as the youngest US attorney in the United States, a three-term member of Congress, sworn in as Governor a year ago, and now here joining your colleagues over the next few days with the National Governors Association. Governor, we're really happy to have you here and I'll turn it over to you.

GOVERNOR ASA HUTCHINSON: Thank you, Alan. I'm going to let you come to Arkansas and make that introduction. That was a great way to start the conversation on healthcare Medicaid reform that we're dealing with in Arkansas. And every state's unique so part of it is I have to set the stage as to the uniqueness of where we are in Arkansas in terms of our movement toward continued review of Medicaid and what reforms we can put into place. I became – I was elected Governor in November of '14 so I was sworn into office in early 2015. You know, and at that time, I had inherited a cake that was fairly well-baked already in Arkansas. The direction that we were going, the budget impacts.

And so, you know, I was not able to make decisions early on. I inherited that. And Arkansas was in a unique position, as many other states, that had anticipated really that the Supreme Court would give us either a yes or no. We're either going to move forward in total on the Affordable Care Act or it's going to be dismantled. And of course, the Supreme Court split the decision and said three-fourths of it's going to be upheld but one-fourth's optional for the states. And that put the states in a quandary from day one. Of course, when I say "four parts to the Affordable Care Act," the key parts are the individual mandate, the employer mandate, the Exchange, and the Medicaid Expansion. Three upheld, Medicaid Expansion optional to the states.

Arkansas, before I became Governor, opted to do the Medicaid Expansion but to do it in a unique way that garnered a significant amount of Republican support, which was to utilize the Medicaid Expansion dollars to set up a program where they buy the insurance on the private marketplace and so that if you're in the Medicaid Expansion population, you would actually have an insurance card, very similar to anyone else, versus a Medicaid card.

And so that was the uniqueness of our program. And since that has been implemented, you've seen, first of all, an Expansion of coverage in Arkansas has been well-documented. You have the per individual cost below budget so you know, it's been cost effective to this point and so we've met the targets in that regard. It has certainly been a boost to our healthcare system in Arkansas in terms of our rural hospitals, our urban hospitals, reducing uncompensated care.

So many, many positive benefits to a state like Arkansas and better health outcomes, better health coverage, and it's obviously been cooked into our budget, as I've said. But it's had a positive impact on the state budget, as well, because you've had an infusion of federal dollars.

So that's what I inherited. And the other unique thing about Arkansas is that it's not a majority vote that you have to have. You have to have a three-fourths vote for implementation of this because that

is what is required with any appropriation vote. And so one-fourth of the legislators who want to kill the Medicaid Expansion or the Medicaid policy, they just simply have to garner one-fourth of the vote to kill it in an appropriation battle. So it's a very large super majority that we have to achieve.

I mentioned the positive benefits of what we've done in Arkansas. But some of the concerns that I've raised that have led to the reform efforts that I've tried to initiate. First of all, I think what you're seeing is a reduction of employer-based insurance. We have employers in Arkansas, which has individuals who are working that are actually under 138% of the federal poverty level and so therefore, they qualify for the Medicaid Expansion. And so if you're an employee working in this type of environment, it's natural for you to think, "Why should I pay the copay for my employer's insurance? Why should I pay the premium every month? If I just opt over to the Medicaid Expansion, then I can have full coverage on it." And so you've seen that. And so I think you're seeing a reduction of employer-based insurance because of that Medicaid Expansion, and that is a concern to me.

Secondly, you know, in terms of moving people into work, which is, to me, a principle part of the healthcare coverage, is that you're providing a benefit to them but ultimately, we want them to move up the economic ladder so that they can move onto the Exchange, they can increase their income, they've got healthcare coverage, and that we have incentives for work. And we still don't have all the statistics but it's been estimated that in Arkansas, 40% of those that are on the Medicaid Expansion have zero income. And these are people who are able-bodied that are capable of working but they either don't have an employment opportunity, they don't have the right training for work, or they could be in college, they could be already in training. So we're still trying to hone down and to identify, you know, how we can move these people into work, work training opportunities, and move them up the employment ladder so that ultimately, they move off the Medicaid Expansion, they move onto the Exchange and it's a progress up the economic ladder.

So those are some of the background for where we find ourselves in Arkansas. I have said I would support a continuation of the Medicaid Expansion in Arkansas if we can do reform of the overall Medicaid budget to create more savings, to make sure we can balance the budget; and then secondly, that we reform it to address some of the concerns that I just mentioned. And so I have asked for waivers, started the process for asking for waivers from the federal government so that we can mandate employer-sponsored insurance.

Now, what that means is that that worker that I identified who has employer-based insurance available to the worker, that they have to take the employer-based insurance versus opting out and say, "We're going to stay on the Medicaid Expansion." And this is estimated to save \$29,000,000 for Arkansas simply by avoiding the premium costs for those workers that would otherwise be on the employer-based insurance. Just as significantly, it would encourage employers to increase their pool, to engage in employer-based insurance. So hopefully, it'll change that dynamic that we're seeing that, you know, we're moving toward simply government insurance versus an employer-based insurance policy in our country. And of course, to accomplish that, you have to have the wraparound benefits for those that would be continuing on the employer-based insurance so that it would meet the requirements of the Affordable Care Act.

The second aspect of what I want to accomplish is worker training incentives and more work opportunity. So we would mandate everyone that would be on the Medicaid Expansion, Arkansas Works, as I call it, that they would be required to be referred over for worker training and that's a very important part of the equation. So we're enhancing through our Arkansas Department of Workforce Services the training opportunities, looking at potential incentives that we can draw them into the training pool so that they can move up the economic ladder and work. So mandatory work training referrals.

Thirdly is to encourage more personal responsibility. So those that would be above 100% of the federal poverty level would pay up to 2% of their premium cost, and that's similar to those that would be on the Exchange. And so for somebody at the 100% of federal poverty level, it'd be about \$19 a month that they would be required to pay as a premium assistance to encourage personal responsibility. And part of that is we want to incentivize better healthy living. You know, let's go into a regular checkup, let's get a health checkup. You know, if they need smoking cessation, to, you know, engage in that. So to take more responsibility for their own healthcare and that's part of the incentive for, you know, having the premium cost that's shared, taking responsibility for your own healthcare and incentivize that.

And finally, program integrity, which are some important changes, which one would be not having ninety-day retroactive for the policy of coverage to begin but to begin it on the date that the application is submitted for Arkansas Works. One, that saves money but also, it makes it very similar to the normal health insurance policy that begins on the date of application.

So those are some of the changes that I've asked for that would support the waiver request and I've presented that to our legislature. Again, I've got to ultimately get a three-fourths vote, it looks like, for that. But what you'll – and I know we need to do questions here, don't we? But this is my message is that what I have outlined is the right direction for changes in federal policy. And so as a state, I hope that what the innovation we're trying to do in Arkansas will lead to ultimate new directions in federal policy, which would be more worker training as a large part of the Medicaid Expansion – personal responsibility and a greater emphasis on employer-based insurance.

But I am hampered in this endeavor by a lack of federal flexibility. As I discussed with Secretary Burwell, it doesn't take long to realize there's a fundamental difference of view in the current federal policy as what I would advocate in the states. I see the Medicaid Expansion effort as a means to an end, and that end is to move people up the economic ladder. This administration sees the Medicaid Expansion as a permanent state of support for healthcare coverage for this population. And so it's a difference of mindset, a difference in view. I would like to see down the road that the federal government gives the states more flexibility to incentivize work to encourage employer-based insurance. That's the big difference. It would give me better options to encourage healthy lifestyles, to incentivize and encourage a change in behavior. This federal administration is not interested in a change in behavior. They simply want to provide the Medicaid benefits. I'm interested in helping to encourage different behaviors and healthier outcomes and encourage employer-based insurance. We need more flexibility to accomplish those objectives.

So with that, I'll stop now.

MARILYN SERAFINI: Great. Okay, thank you very much. Before we open up to questions, can you talk just a little bit – we’ve spoken about Medicaid. Can we talk just a little bit about 1332 waivers, which are available to the states next year and are supposed to provide some flexibility to states to move forward on the kinds of initiatives you’re talking about or to change how you’re providing healthcare? Is that the case? Is that what you’re expecting? Do you plan to use the 1332 waivers?

GOVERNOR ASA HUTCHINSON: Well, we would like to use the 1332 waivers to a greater extent. I think it’s a great option for more innovation in the states to make a seamless path up the economic ladder from the Medicaid Expansion population onto the Exchange and make it more seamless. But to do that, you would have to have a 1332 waiver for the Exchange population. My sense is that this administration is not focused on that, not very receptive to those changes at this time. Hopefully, that will change next year but at this time, it doesn’t seem to be a priority. And so as a result, we’ve focused on the waivers that I’ve spoken of that can be accomplished in the Medicaid Expansion population without moving onto the Exchange waivers.

MARILYN SERAFINI: Okay, questions? So let’s start here and then we’ll move to Phil. If you please identify yourself.

RACHEL KARAS: Hi, I’m Rachel Karas with *Inside Health Policy*. I’m curious about your individual market exchange and what you see as the timeline for that now that it was put on hold back in the fall, and what the biggest hurdles might still be to getting that up and running.

GOVERNOR ASA HUTCHINSON: Just a little background for everyone else, that we have in Arkansas a federal run exchange but the legislature created a health insurance marketplace organization, nonprofit-type structure that oversees looking into a state-based exchange. And they received a \$99,000,000 grant from the federal government to build a shop exchange and a state-based exchange. As Governor, I put a hold on the state-based exchange and asked for a pause of that because I did not see any necessity for it. The current system is working fine and it just increased the risk to the state. And when I say I put a pause on it, I indicated my reservation about building a state-based exchange and asked for a pause to be put on it. They don’t have a direct report to me so I had to use my powers of persuasion to accomplish that. But they are very cooperative and they agreed to that.

So that state-based exchange is on hold, so we have developed a shop-based exchange for small business. And we are working very closely with our health insurance marketplace to look at ways we can tie in my employer-based insurance emphasis for small businesses with the shop exchange and to see how we can better utilize that marketplace for small businesses to access and also, perhaps even to be a premium integrator that would take the federal dollars that we take, the employer insurance premiums, the employee benefit insurance premiums altogether and integrate it so it takes that burden off the government, it simplifies it for business.

So that’s something that we’re looking at but it’s not a this-year issue, it’s a developmental issue as we continue to look at ways we can better utilize the reform. Or better utilize the exchange.

RACHEL KARAS: Do you ever foresee, I guess, un-pausing the individual market?

GOVERNOR ASA HUTCHINSON: Only if there's a good reason to. I've asked, I've asked for some compelling reason. And you know, they, in general, come back and say, "Well, if we get more of the 1332 waivers, you know, we can do more with the Exchange," but there hasn't been any fine tuning of a specific idea. So when there's not a necessity or a reason to develop it, why develop it? You know, it assumes an enormous amount of risk at great expense. And so I see that pause continuing and I see that as part of our negotiation with the federal government as to where we go in the future with that and the money that's been allocated for it.

PHIL GALEWITZ: Governor, Phil Galewitz with *Kaiser Health News*. Can you tell us how many of your Medicaid Expansion folks are making less than \$16,000 a year and getting full healthcare benefits at work? I can't imagine that's a huge number.

GOVERNOR ASA HUTCHINSON: Well, those aren't the right numbers because whenever you're making under 138% of the federal poverty level; if you have dependents, then that raises you up, you could be up to the \$32,000 level and still qualify for the Medicaid Expansion if you have those dependents. So those are the ones that we're speaking of. And so these are very real illustrations of that.

PHIL GALEWITZ: So how many people would be affected by the change?

GOVERNOR ASA HUTCHINSON: We don't know. I'm going to back up a little bit. Mannett Consulting Group has estimated that to the best information they could have, we would save \$29,000,000. So they have estimated in some fashion. I don't have the specific number as to how many employers would be impacted by that.

PHIL GALEWITZ: Or people.

GOVERNOR ASA HUTCHINSON: Correct. They might – obviously, you have to have some number to come up with a \$29,000,000 figure. I don't have that in front of me to provide to you. We might be able to get that but I don't have that in front of me.

EVAN WILT: Hi. Evan Wilt, I'm a reporter with *World* magazine. I wanted to get back to that integrity part you were talking about with the Medicaid Expansion. There's been some talks that there's kind of a loophole where wealthier people are able to spend down their assets and have less taxable income, were able to take advantage of some of the Medicaid benefits. Do you see that happening in Arkansas? Is this a problem on the national level and do you have any plans to change this?

GOVERNOR ASA HUTCHINSON: Well, there's not even any requirement to spend down assets to qualify because there's no asset test. And so anecdotally, it's really the information that we have, which I have reason to believe that it's true, that you know, you can have someone with \$200,000 in a bank account but they have no income and they could have a paid-for car, a very expensive car, and they can qualify for the Medicaid Expansion. And that's because there's no asset test. And I've raised this issue with Secretary Burwell. It's a non-starter with this administration to have any type

of asset test. I believe there should be some type of an asset test but we have to wait for a change in federal policy to accomplish that.

To what extent is this a problem nationally? It's a frustrating thing. We still do not have that kind of information that's available because there's not any asset information that's provided. So I think that has to be explored more to see the extent of the problem. I wouldn't say that it's, you know, a tipping issue. I wouldn't say that it's such a dramatic problem that, you know, you're going to reduce the Medicaid Expansion population dramatically. But if you're going to have integrity in the program, it should not be available to the same extent for someone who has a dramatic amount of assets, then cash in a bank account.

And so there's many ways that you can have a flexible – you can have, you know, asset test but that would not necessarily disqualify you for the whole Medicaid Expansion support but it might increase your premium cost, it might, you know, have some more temporary assistance to you. So there's a lot of different ways to weigh that – do that – but I think it needs to be a part of the equation.

MARILYN SERAFINI: Okay, here, and then...

ROBERT KING: Hi, I'm Robert King with the *Washington Examiner*. So if you don't get this waiver, will you repeal the Medicaid Expansion in Arkansas?

GOVERNOR ASA HUTCHINSON: Well, first of all, the private option, as we call it, the current Medicaid Expansion waiver, ends December 31, 2016. So that, by law, ends. And so it's a question of what we pass to the legislature to continue any form of the Medicaid Expansion. And I would not be supportive of a continuation of that Medicaid Expansion without the kinds of reform that I have outlined and that I have asked waivers for.

ROBERT KING: Real quick followup. So you said \$29,000,000. Is that over like one year or five years?

GOVERNOR ASA HUTCHINSON: Per year.

ROBERT KING: Per year.

MARILYN SERAFINI: Okay.

GOVERNOR ASA HUTCHINSON: Let me add back because I didn't elaborate enough. One of the things that I've raised with the administration is we need to incentivize that employer-based insurance, as well. So I'd like to take a significant portion of that \$29,000,000 in savings and use it back to reward or incentivize the employee for continuing employer-based insurance. That's an important part of the equation that we're working on and asking for the approval of CMS to accomplish that.

ROBERT KING: What incentive would that be? Credits or something?

GOVERNOR ASA HUTCHINSON: It could be in the form of credits, it could be in the form of, you know, certain amount per employee that shifts to the employer-based insurance that they would get a cost reimbursement per employee. So you know, if you took half or 75% of that \$29,000,000 and said we're going to encourage that employer-based insurance, then all of a sudden, you've got stronger movement for employers to say, "Hey, that makes sense." Because, you know, we don't want to create mandates and heavy burdens on the employers in terms of paperwork so we want to incentivize the employers to come to us and say, "We want to move our employees who are on Medicaid Expansion into our employer-based insurance," and so they would initiate it. And because they're initiating that, they would have a financial incentive and a reward for it.

MARTHA CRAVER: Okay, you just answered my question. Martha Crave with *Kiplinger*.

GOVERNOR ASA HUTCHINSON: Oh, well, sorry.

MARILYN SERAFINI: Okay, we'll just go right down the line here.

RICH DALY: Hi, Rich Daly with *Healthcare Financial Management* magazine. I just wanted to follow up on that 2017 funding issue. Are you looking at this? Are you looking at provider taxes? Are you looking in terms of the state share? And are you looking at – have you heard concerns that the federal government may move to limit provider taxes? There's a lot of noise about that so just check on that funding issue.

GOVERNOR ASA HUTCHINSON: So you're speaking about what we're doing to look at the 5% that the states will be required to kick in in 2017.

RICH DALY: Right.

GOVERNOR ASA HUTCHINSON: And the answer is, you know, to continue our Medicaid Expansion, we need not only these reforms but we need a financial path to make sure we're not draining money from general revenues in terms of education and other essential needs of the state. And that's why we look at the entire Medicaid budget and say we need to accomplish reform. I've actually identified it at \$835,000,000 over five years that we need to save from our entire Medicaid budget to make sure we're not going in the wrong direction in terms of our general revenue budget. That is something that is very doable in terms of the reform we can accomplish in our whole Medicaid budget, moving parts of it to some managed care. Dental has been agreed upon but also, looking at voluntary cooperation from industry to accomplish savings in the overall Medicaid budget.

So accomplishing those savings is now we will cover the 5% that will be the responsibility of the state. And I'd also add that if Arkansas – you know, my motivation for continuing the Medicaid Expansion is one, fairness. I think it's wrong to say, "We're going to end Medicaid Expansion but continue the subsidization of the middle income with their healthcare." That would be wrong and unfair to say we're going to end it for the lower income, we're going to continue it for the middle income, so a matter of fairness.

Secondly, it's a matter of there's a better health outcome if we can, you know, continue this and we're providing healthcare for two hundred thousand in a reasonable fashion.

The third part of it is budgetary. Right now, if we ended the Medicaid Expansion in Arkansas, it would be a \$100,000,000-plus – that's conservatively speaking – hole in our budget. So it is a – it would hurt us financially right now to end the Medicaid Expansion from a budget standpoint. And that would be true all the way through, I think it's 2020. So we're looking at positive budget impacts from Medicaid Expansion versus a negative budget impact, and that's important to clarify.

By the way, the fourth reason that I think it's important to continue the Medicaid Expansion now in Arkansas is because of a matter of timing. You know, federal policy is going to be reviewed again next year, whoever is elected President. And there could be more flexibility, there could be more waivers granted that could open up the Exchange type waivers. And so why disrupt the – totally disrupt where we are right now in terms of the Medicaid Expansion population in Arkansas? The timing is much better next year to review federal policy and where we should be as a state.

NOAM LEVEY: Governor, Noam Levey with the *Los Angeles Times*. You laid out some of the consequences of rolling back the Medicaid Expansion at this point. Can you talk a little bit about the consequences if the entire Affordable Care Act were rolled back for Arkansas?

GOVERNOR ASA HUTCHINSON: I think it'd be a good thing. And it's a fundamental matter of philosophy. I opposed the Affordable Care Act at the beginning because the individual mandate is – infringes upon freedom. It's not been well-received. You know, they continue to hesitate and blush about, "We're going to penalize people for not following the individual mandate." We still haven't seen that consequence. The employer mandates cost businesses. I have fundamental problems with the employer mandate.

And so you know, I've started to look at some of the different federal candidates and what their policy would be. And on the Republican side, they want to repeal the Affordable Care Act and replace it. What do you replace it with? First of all, you give the states the same Medicaid dollars right now with the flexibility. I've made a commitment that we can continue to cover the Medicaid Expansion population with the reforms that I have, and more reforms to be put into place that will allow us to accomplish objectives and to move people – and instead of making it a permanent entitlement program, it becomes a means of moving people up the economic ladder. That's what I want to accomplish. And if you give me more federal flexibility, we can do that better in Arkansas with the same dollars and a better program. So that's, to me, the direction they should move.

MAUREEN GROPE: Maureen Groppe with Gannett and the *Indianapolis Star*. I want to ask you about the federal evaluation, or the evaluation part of these waivers. Governor Pence has complained about the evaluation that's going to be done on Indiana's waivers as the federal government is duplicating – they're doing their own when they should let the state do its own evaluation, just rely on that. And he also thinks that some of the people being chosen to do the evaluation at the federal level are biased. What's been your experience with the evaluation stage of the waiver in Arkansas?

GOVERNOR ASA HUTCHINSON: I'm not sure I'm in a position to weigh in. You know, the debate right now is, you know, if you evaluate the success of the waiver right now called the Private Option, you know, it's within the budget constraints. So we've met those objectives and that's an agreement between us and the federal government. You know, there's better coverage out there, which is an objective at the federal government. And so I don't know that there's any controversy from our standpoint in regard to the mutual evaluation of the program.

So our debate and issues with the federal government is we want more – we want to change the program to a greater extent and have an opportunity to show that we can have these four framework ideas implemented and still accomplish mutual objectives. So that's our debate now and it's not really a debate on the evaluation process.

SARA HANSARD: Sara Hansard with *Bloomberg BNA*. Now you were talking about on the employer mandate, you said you didn't like the idea of the employer mandate in the ACA. How is that different from what you're proposing for your Medicaid Expansion? I thought that sounded like some degree of an employer mandate there, no?

GOVERNOR ASA HUTCHINSON: Well, the mandate would be on the beneficiary of the Medicaid Expansion. If they have employer-based insurance available that meets the requirements of the Affordable Care Act, then they have to take it. So it's not an employer mandate, it's an employee – or beneficiary mandate. So that's the distinction.

KARL EISENHOWER: Hi, Karl Eisenhower from *RealClearHealth*. When you were talking about the 1332 waivers earlier, you talked about trying to have seamlessness between the Medicaid Expansion and the individual insurance marketplaces. Is the aim there to deal with the churn when people's income fluctuates back and forth? And what would that seamlessness look like?

GOVERNOR ASA HUTCHINSON: Well, you know, they would be – if you're under 138% of federal poverty level, you're getting your insurance through the marketplace. And then if your income goes above that, you would still have that same familiarity with the Exchange. It's easy just to continue on that Exchange to move up and get a subsidy on it. So in that sense, it's seamless.

You know, I think one of the, again, the things that we're looking at is tying more into the small business insurance side of it, which you know, there's so many constraints on the shop insurance that you have very few participants; those who are under fifty employees that decide to go on the shop exchange to buy the insurance. And so if you can utilize the shop exchange as a premium integrator, as a means, an incentive for the employers to get it and maybe change those rules. Instead of just simply less than fifty, maybe adjust that. We've got to increase the utilization of that shop exchange as one of the objectives of both marketplace and I think it would be useful, as well.

So that's what we're focused on. I mean, we're actually – because we have the insurance in the marketplace for the Medicaid Expansion population, it's easier for us to do it. Other states that put them on just expanded Medicaid roles, you know, it's a little bit different to integrate it into the Exchange. Ours is easier in Arkansas to do that and make it a seamless movement up the economic ladder.

UNIDENTIFIED MALE: You mentioned personal responsibility. How does paying a premium make you any more responsible for your health? We all pay a premium, or a lot pay a premium. Could you talk about what you're trying to do?

GOVERNOR ASA HUTCHINSON: Yeah, great question. Primarily, you know, we have a program in Arkansas called Healthy Active Arkansas but it's trying to have more responsibility to have your annual checkup. If you've got a potential for diabetes in your family to take care of yourself. Maybe, you know, it's exercise. But these kinds of incentives for better lifestyle and healthcare and management of your own health needs and how do you get there. One way would be saying, "You're going to pay a premium whenever you're at 100% of the federal poverty level but we will waive that premium for you if you will accomplish these outcomes."

And so that is one of the reasons that premium is a good tool to use, that copay. And I realize that, you know, still, if you're at the federal poverty level, even \$19 a month makes a difference. You know, they'd like to be able to avoid that and so it does incentivize that good healthy outcome.

The challenge is, quite frankly, one that we're looking at is dental coverage. Because if you're in the Medicaid Expansion population on traditional Medicaid, you have dental and vision coverage. Most employer-based policies don't have that. And so we thought about rewarding them with dental coverage, you know, for paying their premium and complying with Healthy Active Arkansas. Well, then all the sudden, you're saying those that are on the Expanded population is going to have better insurance coverage than those in the employer-based [interruption]...

UNIDENTIFIED MALE: That's the case in Indiana.

GOVERNOR ASA HUTCHINSON: Yeah, I think it's problematic. The employers don't like that. And so you're always going to have some distinctions.

So the answer to your question is the \$19 a month is important to one; give them that personal responsibility in the investment and say, "If we're going to have a copay for every time we go, we want to make sure that we take care of ourselves and handle it right." But then it also gives you a tool to incentivize other behavior.

UNIDENTIFIED MALE: And you set those up to say like here's what you've got to do to avoid the \$19, or that's down the road.

GOVERNOR ASA HUTCHINSON: Well, at this point, I've simply outlined that if you don't pay the \$19, it becomes a debt of the state. We're continuing to look and we're going to work with CMS to see what other kinds of incentives that we can have, or consequences is the right word for it. And you know, this administration do not like to have negative consequences and so it's all a matter of positive incentives. And so once again, we're a little bit limited in our flexibility to design that.

MARILYN SERAFINI: What does "debt of the state" mean for you and for the beneficiaries?

GOVERNOR ASA HUTCHINSON: Well, it means that if they get an income tax refund, you can withhold it. It would be the primary consequence to them. You know, so it becomes a debt if they

don't pay it because the administration's not going to allow you to cut them off because they don't pay that premium because they want the coverage. But it would become a debt to the state. It could be collectable at some point in time if there was a refund available or some other means.

MARILYN SERAFINI: So there's been a lot of debate in the research about just how much people can afford to pay, whether it's an incentive or not, before you reach a point where they are not going to see the doctor or taking care of what they need to take care of. So you're talking about for folks who are at the federal poverty level or greater, so we're talking about individuals of around, say, \$16,000 a year or so. How did you come up with that particular number? And how do you know that people at that level can afford to be – how much they can afford to be putting in?

GOVERNOR ASA HUTCHINSON: Actually, the debate was more around what do you do if you're, you know, making between 50% and 100% of the FPL? Should you share in the personal responsibility there? You know, I made the judgment that I don't think so. I think that they're struggling. But if you get to the federal poverty level, then I think it's reasonable to say, you know, up to 2% can be, you know, a positive exercise in personal responsibility. And because you're getting very close to where you would go on the Exchange and you would have to pay 2%. So you know, and it would be the same as if – if you're making 100% of the FPL, you're working somewhere. And so other people that are working, they're making a little bit more, they're paying part of it.

So you know, it was cut off at the federal poverty level. And again, it's not to create a difficult cash flow for them. We hope to utilize it as a means for good healthy behavior.

NOAM LEVEY: Hi, Governor. Can you talk a little bit about whether or not the uncertainty in the future of Arkansas' Medicaid program would have any impact on the state's fairly ambitious payment reform effort involving Medicaid and the commercial payers in the state?

GOVERNOR ASA HUTCHINSON: You're talking about our payment improvement initiatives?

NOAM LEVEY: Yes.

GOVERNOR ASA HUTCHINSON: Well, those are really the cost saving measures that we have on Medicaid as a whole; the patient-centered medical homes, the payment improvement initiatives. And we've had the John Steven Group working through the legislature and our healthcare taskforce to look at different means of savings, really meeting my challenge that we need to come up with \$835,000,000 in savings over five years. And so they certainly see the benefit from the continuation of the payment improvement initiative and so I see that continuing. And then, in addition to that, though, I see, you know, taking a look at managed care, implementing that for the dental population and then, also, some additional savings measures in the other populations from behavioral health to the long term care, as well.

So I see that continuing, in answer to your question, and it's been a very positive thing for the state. In fact, our Medicaid budget, although it grows, it's grown at a slower reduced rate than what was projected. And so it's actually from a projection standpoint, it's been very effective and it's created some savings in the growth of the Medicaid budget.

ALAN WEIL: If I could follow up on Noam's question, you describe a path of moving people up out of Medicaid into private coverage and employer coverage. I wonder if you could describe anything in addition to the payment reform that you're doing or that you think the federal government could be doing to expand the availability of coverage for those who are employed.

GOVERNOR ASA HUTCHINSON: They seriously need to address this. Now, if their objective is a one-payer system where you end employer-based insurance and it's simply a government insurance program; then they're not going to change their current policy. But if you want to preserve employer-based insurance as a reasonable option, then I think you've got to incentivize employers to keep that. And to do exactly what we – I want to do in Arkansas, which is if you're working and there's employer-based insurance available, then to mandate that that beneficiary be on the employer-based insurance. This is very, very critical. And so I think it's a matter of incentivizing employers to keep that insurance. It could be through tax credits, it could be for return of the savings as we're trying to do in Arkansas, and it could be through simply mandating the beneficiaries to take that option.

And I think the other thing is let's study it. Let's find out, you know, what is the impact? I mean, I'm getting it anecdotally. I think we're seeing – I mean, I had a county judge, which is our County Chief Executive, indicate to me that in county government, they have moved, instead of the county having to pay the insurance, they move them onto the Medicaid Expansion roles. Because even in county government, they qualified from the income level and it saved the county money not having to provide that insurance.

So that's anecdotal but that's a government – I actually called my Director of Prisons in the Department of Corrections, "Do we have anybody on the Medicaid Expansion roles that worked for state government in the prison system?" Luckily – or fortunately – she said no. But you know, that's the kind of information I'm trying to get within State government. I'd like to have the federal government analyze it more deeply as to what's happening out there and to see what changes we can make to make sure that employer-based insurance is not diminished. And it's not just the small employer, it's the large employers, as well.

MARILYN SERAFINI: We have someone back here.

BRIANNA EHLEY: Hi, Governor, I'm Brianna Ehley with *Politico*. I just have a quick question about timing. I was wondering when you plan to call a special session for the state legislature to consider continuing Medicaid Expansion and if you have a specific date.

GOVERNOR ASA HUTCHINSON: It's right around the first of April. What we're doing in Arkansas is we're mandated to have a fiscal session every other year, so this year is our fiscal session that'll be in mid-April. And so prior to that regular fiscal session, we'll have a special session on Medicaid reform that I will present, Arkansas Works. And so that's the timeframe it'll be considered, probably the first week in April, move into the fiscal session and then that's when we actually have to have a higher super majority to get the appropriation passed.

UNIDENTIFIED MALE: Just to follow up, one of the key selling points of the Medicaid Expansion was to reduce emergency departments in hospitals. I'm wondering if you're seeing that in Arkansas. It's not apparently happening nationally but...

GOVERNOR ASA HUTCHINSON: You said it's not happening nationally?

UNIDENTIFIED MALE: The reduction in the use of EDs is not happening, actually, according to new CDC numbers out this week. But are you satisfied with, I guess, your managed care plan efforts in that area or the state's efforts?

GOVERNOR ASA HUTCHINSON: No, we need to do much more in that area. We have – and again, we don't have managed care right now in Arkansas so that's one of the benefits of the managed care is, you know, having people educated more in the proper use of emergency facilities, emergency room care. So we're continuing to look at ways to educate the beneficiaries, the utilization of the emergency room care. And that's one of the frustrations. We haven't seen the level of decline that we'd like.

UNIDENTIFIED MALE: Sorry, don't mean to monopolize the conversation here. You mentioned that you would like additional flexibility from the federal government to do some different things in Medicaid. If you had that flexibility, what additional changes would you make to the program and to any requirements on Medicaid beneficiaries?

GOVERNOR ASA HUTCHINSON: Well, first of all, an asset test of some variety would be included in that to ensure the integrity of the program and that it's being used properly.

Secondly, it gives you more flexibility to have incentives and consequences to encourage good behavior and healthy outcomes and responsibility. So it gives you more flexibility in that regard.

You know, it gives me more flexibility to manage and encourage employer-based insurance and the work referrals. For example, right now, we can't make – you know, you have the SNAP program that you can have a work requirement for able bodied individuals. You know, currently, that cannot be a requirement of the Medicaid Expansion population.

Now, you're asking what would I do. Those are things you would look at. Now, you'd want to make sure they're fairly implemented and has the flexibility needed. But right now, you cannot put a work requirement in. You cannot put a work requirement in. If you give us more flexibility, we have a better means to incentivize and create work opportunities.

UNIDENTIFIED MALE: I just wanted to follow up briefly and being the devil's advocate here slightly; you mentioned earlier that there's probably a relatively small number of people who are stocking away hundreds of thousands of dollars and driving fancy cars in Medicaid. And as to consequences, you mentioned also that you're somewhat skeptical that people making less than 100% of the poverty level are capable of paying much more for their medical care. Those seem, at least on the outside, to be relatively minor changes in a program as large as Medicaid. Am I reading that wrong?

GOVERNOR ASA HUTCHINSON: Well, I think they're significant changes. But also, if you would consider them minor changes, they're minor changes because you don't have the flexibility within this administration to accomplish greater changes. And so, you know, my list of personal responsibility is a little bit longer than what, you know, we're ultimately able to negotiate with this administration and potentially, get waivers for.

So I think these are very substantial changes. That's one of the reasons you have to get waivers for them. But you've asked me the same question really in two different ways. You know, what are some of the things you'd do if you had more flexibility? I just articulated those. And what we have right now is too constrained.

You know, one of the – I had a great conversation with Secretary Burwell and I want to compliment her for her practicality, her willingness to work with the states. And we're very frank and you know, this is her constraints and you know, some things she can't do and some things she can do. And you know, one of the things is, you know, a difference of philosophy. You know, I see the Medicaid Expansion as a tool to move people up the economic ladder and there's a lot of things you can do to encourage that worker training, to require worker training, to instill work opportunities as a part of the fabric of the program. This administration can't do that because it's an entitlement. Once you qualify, you've got it and you cannot put constraints on that.

And so when we were looking at worker incentives, she says, "Look beyond the Medicaid program." It was really good advice she gave me. So you look at the Department of Labor and how can you provide incentives from a positive standpoint from the Department of Labor or from our Workforce Services to pull people over into that work opportunity side. We're looking at that.

But you're just very constrained because of that fundamental difference of viewpoint. And so you give us more flexibility, it just gives us more tools to work with to accomplish these objectives.

MARILYN SERAFINI: Okay, here and then here.

UNIDENTIFIED MALE: So you said that there has been a problem with kind of constraints and a problem with little flexibility from the administration. Is it just the fact that you have to go get waivers for this? Or is there something more, like some more issues or obstacles that you're dealing with? Can you kind of elaborate on that lack of flexibility a little bit?

GOVERNOR ASA HUTCHINSON: Well, one, you know, I can't get a broad block grant, which says, you know, "Last year, we paid the State of Arkansas, reimbursed them X number of dollars for Medicaid. You know, if it has an expected growth rate, this is what it would be every year and so this is what we will commit to you. And you know, we want you to cover the Medicaid population under 138% of the poverty level." You give me that kind of a block grant with the flexibility to manage that program, we'll be able to create more savings, we'll be able to do it more efficiently, and we'll be able to put what I call Arkansas values in place – on responsibility, on the work requirements, the employer-based insurance. And you might learn from other states in the innovation they might have. So to me, that's a proper balance between the federal government role and the state government.

So that's what I mean by flexibility as a block grant type approach. I mean, we're having to, you know, in very minor details, you know, address these changes with the federal government. I think these are very significant changes but you know, every detail of the employer-based insurance, you know, we need to work with CMS and make sure that that fits within their priorities.

SHEFALI LUTHRA: Hi, Governor. Shefali Luthra with *Kaiser Health News*. Maybe this should be clear but I'm a little confused as to what exactly positive and negative incentives would look like for premiums. I mean, paying more for people to lose X number of pounds in certain months, or kind of how would that play out practically?

GOVERNOR ASA HUTCHINSON: You're talking about just simply for the healthy outcomes? Well, you start with simply you've got to get your wellness check. That one point is important. You just have everybody that is under, you know, the Medicaid roles that they have a wellness check with a doctor. Because right now, they simply go to the doctor when they have an adverse outcome that compels them to go. So it's more preventative care in play. So that's what I'm focusing on is a wellness check.

Now, you know, as part of that, you know, we're not going to micromanage it where you've got to lose, like you said, a certain number of pounds, things like that. We want them to have regular checkups with a doctor and to follow, you know, the doctor's plan of good health. That's fairly minimal, it's not an intrusion on people's liberties, but it's common sense. But it would really help improve outcomes.

MARILYN SERAFINI: Governor, of course I can't expect you to speak for your fellow governors but I'm assuming there's some conversation that goes on that you're hearing from other governors about their own initiatives and their own frustrations with trying to implement, you know, healthcare initiatives. So can you talk a little bit about what you're hearing from other states?

And then also, you're about to spend a couple of days sitting down with your fellow governors at the National Governors Association meeting here in DC. And I am wondering how much discussion you think there will be regarding your frustrations in not having as much flexibility as you would like, and what you expect – can you accomplish something with the force of, you know, more governors working together to try and work with HHS?

GOVERNOR ASA HUTCHINSON: We learn from each other and so I do expect some very vigorous conversations with my fellow governors at this session. And I think the conversations will center around what, you know, waivers they're looking at, you know, what innovations happen in the states. You know, some of the questions have been addressed on, you know, healthy outcomes, you know, what more could be done in that arena, you know, what incentives versus additional requirements can be put into place. You know, so the whole raft of issues I would expect to be talked about.

But also, every state's in a different position both with their legislature, as well as with whether they've accepted or rejected the Medicaid Expansion. And so the states that I'm in a very similar position with would be one, Kentucky. Because you know, this is – Governor Bevin and myself both inherited a state with Medicaid Expansion. And to unbake that or to change the status quo is a

big challenge for any governor. And so I'm looking forward to conversation with him. I've had some over the telephone with him and I think there's some good comparison of our notes that we can do together.

And so I expect some very significant discussions this time. But also, I think you talk about the future. You know, I don't, quite frankly, expect anything to change in federal policy between now and the end of this year. I think we're all looking to what's going to happen next year, what's going to be over the longer term in terms of changes in federal policy and the role the states can play in pushing for changes in those federal policies. And I think that'll be true whether we have a Democrat or Republican president. Obviously, a Republican president is going to have a more aggressive approach to the changes. But I would expect, you know, a fresh look whether you have a Democrat or Republican and hopefully, the states can – the governors can really have an influence on that between now and next year.

MARILYN SERAFINI: Additional questions?

UNIDENTIFIED MALE: You mentioned \$29,000,000 a couple times on the savings. From the perspective of the whole budget, Arkansas sends what, about a billion dollars on Medicaid? Is the \$29,000,000 that vital? Or is this more of a philosophical thing as opposed to \$29,000,000 is going to make or break the budget?

GOVERNOR ASA HUTCHINSON: Well, I have a philosophy that small things matter. And so I'm still not to the point in government that I dismiss \$29,000,000. So you know, there's some savings in that ninety-day – doing away with the ninety-day retroactivity for where a policy begins. That's some savings, as well.

So is it significant? It's significant both in terms of amount but it's also significant in encouraging employer-based insurance. That number, if you have more employer-based insurance available, that number might grow in terms of savings. But it's, to me, a very important part of Arkansas Works. Hopefully, we can get the waivers needed to accomplish that.

UNIDENTIFIED MALE: What if they just can't support the employer-based insurance? What do you tell them?

GOVERNOR ASA HUTCHINSON: Who?

UNIDENTIFIED MALE: The employer says it's \$400 a month for your employer insurance and they're making \$16,000 a year and you want to require them to get their insurance. But they say, "You know what? Can't afford it."

GOVERNOR ASA HUTCHINSON: The worker, you're talking about.

UNIDENTIFIED MALE: Yeah.

GOVERNOR ASA HUTCHINSON: No. Well, they're mandated to get it but there's wraparound coverage and so that's required to get through – I have to be able to say, "You get the employer-

based insurance but you know, Medicaid will cover your copay. They will equalize it with what you would have if you were on the Medicaid Expansion.” So it’s not a harm to that beneficiary. Thanks for asking that clarification.

MARILYN SERAFINI: So I’d like to remind everybody in the room that the Alliance for Health Reform and Health Affairs, with the very generous support of the JKTG Foundation, we’re going to be bringing you several more briefings coming up. So please, in your packets there’s a little blue form. Let us know who you’d like to hear from, what subjects you’d like us to cover, because we look very closely at that and we want to be helpful to you.

So I think we’ll close and I’d like to thank Governor Hutchinson for being here. This is an issue that we expect to hear a lot more about and we greatly appreciate your insight.

GOVERNOR ASA HUTCHINSON: Thanks for the opportunity. Good to talk with you all today. [Applause] You’re the expert, you should’ve talked.

ALAN WEIL: No, no, no, they want to know – but you know the real stuff.