

# **Exhibit K**

Department of Health & Human Services  
Centers for Medicare & Medicaid Services  
7500 Security Boulevard, Mail Stop C5-26-16  
Baltimore, Maryland 21244-1850



Office of the Administrator

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December 30, 2013

Mr. Stephen Fitton  
Director  
Michigan Medical Services Administration  
Capitol Commons  
400 S. Pine  
Lansing, MI 48909

Dear Mr. Fitton:

The Centers for Medicare & Medicaid Services (CMS) is approving Michigan's request to amend the Medicaid demonstration, entitled "Healthy Michigan Section 1115 Demonstration (Project No. 11-W-00245/5)," formerly known as the Medicaid Nonpregnant Childless Adults Waiver [Adult Benefits Waiver (ABW)]. The amendment provides approval for the state to establish and operate the Healthy Michigan program for adults who will become eligible for Medicaid under section 1902(a)(10)(A)(i)(VIII) of the Social Security Act (the Act). Through these demonstrations and associated state plan amendments, effective April 1, 2014, the state will provide Medicaid coverage to all adults in Michigan with incomes up to and including 133 percent of the federal poverty level (FPL). This amendment is approved in accordance with section 1115(a) of the Act, and is effective as of the date of the signed approval through December 31, 2018.

Healthy Michigan will initially provide transitional coverage for beneficiaries served under the ABW demonstration; after the April 1, 2014 implementation of the new adult group, Healthy Michigan will enable the state to design, test and evaluate policy related to cost sharing, premiums and healthy behaviors incentives. On April 1, 2014, existing ABW program participants will transition to Medicaid, and the ABW program will sunset. Beginning April 1, 2014, under the demonstration individuals above 100 percent of the FPL will make premium contributions, and all beneficiaries will be subject to cost sharing at levels consistent with Medicaid requirements.

In addition to approval for the amendment, this letter also provides the annual update to the budget neutrality limit for the ABW program, as required by section 2111(a)(3)(C)(ii) of the Act. This section requires that the budget neutrality limit for each federal fiscal year (FFY) for a Medicaid Non-Pregnant Childless Adult Waiver is determined by increasing the prior year's limit by the percentage increase (if any) in the projected nominal per capita amount of National Health Expenditures (NHE) for the calendar year that begins during the year involved over the preceding calendar year, as most recently published by the Secretary. On September 18, 2013, CMS published new NHE projections, which showed that nominal per capita NHE will increase by 5.2 percent in 2014. Applying this percentage increase to the approved limit for FFY 2013

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results in a FFY 2014 (demonstration year 5) annual limit of \$159,737,844 in federal funds. These funds may be used for health services expenditures for ABW enrollees with dates of service through September 30, 2014, although it is anticipated that there will be no dates of service subsequent to the phase-out of the ABW program as of April 1, 2014.

The CMS approval of the demonstration is conditioned upon compliance with the enclosed set of STCs defining the nature, character, and extent of anticipated federal involvement in the project. The award is subject to our receiving your written acknowledgement of the award and acceptance of these STCs within 30 days of the date of this letter. A copy of the STCs, waiver, and expenditure authorities are enclosed.

Your project officer for this demonstration is Kelly Heilman. She is available to answer any questions concerning your section 1115 demonstration, and her contact information is as follows:

Centers for Medicare & Medicaid Services  
Center for Medicaid & CHIP Services  
Mail Stop: S2-01-16  
7500 Security Boulevard  
Baltimore, MD 21244-1850  
Telephone: (410) 786-1451  
E-mail: kelly.heilman@cms.hhs.gov

Official communications regarding program matters should be sent simultaneously to Ms. Verlon Johnson, Associate Regional Administrator in our Chicago Regional Office. Ms. Johnson's contact information is as follows:

Ms. Verlon Johnson  
Associate Regional Administrator  
Centers for Medicare & Medicaid Services  
Division of Medicaid and Children Health Operations  
233 N. Michigan Avenue, Suite 600  
Chicago, IL 60601-5519

If you have questions regarding this approval, please contact Mr. Eliot Fishman, Director, Children and Adults Health Programs Group, Center for Medicaid & CHIP Services, at (410) 786-5647.

Thank you for all your work with us, as well as stakeholders in Michigan, over the past several months on developing this important demonstration, and congratulations on its approval.

Sincerely,

/s/

Marilyn Tavenner

Enclosures

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cc: Verlon Johnson, ARA, Chicago Regional Office

**CENTERS FOR MEDICARE & MEDICAID SERVICES  
EXPENDITURE AUTHORITY**

**NUMBER:** 11-W-00245/5  
**TITLE:** Healthy Michigan Section 1115 Demonstration  
**AWARDEE:** Michigan Department of Community Health

Under the authority of section 1115(a)(2) of the Social Security Act (the Act), expenditures made by the state for the items identified below, which are not otherwise included as expenditures under section 1903 of the Act, incurred during the period of this demonstration, shall be regarded as expenditures under the state's title XIX plan.

**The following expenditure authority is provided to the State of Michigan in order to operate the Healthy Michigan section 1115 demonstration.**

1. Expenditures for Healthy Behaviors Program incentive payments to offset beneficiary cost sharing liability.

**The following expenditure authorities, which are provided to the State of Michigan in order to operate the Adult Benefit Waiver (ABW) program, will remain effective through March 31, 2014.**

2. Expenditures for health care-related costs for non-pregnant, childless, adults ages 19 through 64 years who have family income at or below 35 percent of the Federal poverty level (FPL), who are not otherwise eligible under the Medicaid State plan, and who do not have other health benefits coverage, and who are determined eligible for and have enrolled in the Adult Benefits Waiver program.
3. Expenditures for capitation payments for services furnished to the non-pregnant, childless adult population described in Expenditure Authority No. 1 above, through the 27 county – administered health plans currently operating in 72 of Michigan's 83 counties in rural and non-rural areas, even though enrollees do not have a choice between at least two such plans , as required under section 1932(a)(3) of the Act, and even though the plans do not meet the requirements under section 1903(m)(2)(A)(vi) and section 1932(a)(4) because they restrict enrollee rights to disenroll within 90 days of enrollment.

All requirements of the Medicaid program expressed in law, regulation, and policy statement, not expressly identified as not applicable in the list below, shall apply to expenditure authorities through December 31, 2018.

**Title XIX Requirements Not Applicable to Expenditure Authorities 2 and 3:**

1. **Reasonable Promptness** **Section 1902(a)(8)**  
To the extent necessary to enable the state to cap enrollment for the Demonstration-Eligible Population in order to remain under the annual budget neutrality limits under the demonstration.
  
2. **Amount, Duration, and Scope** **Section 1902(a)(10)(B)**  
To the extent necessary to enable the state to offer a different benefit package to the Demonstration-Eligible Population that varies in amount, duration, and scope from the benefits offered under the State Plan.
  
3. **Freedom of Choice** **Section 1902(a)(23)(A)**  
To the extent necessary to enable the state to restrict freedom of choice of provider for the Demonstration-Eligible Population to single county- administered health plans in the counties where these plans exist. The Demonstration-Eligible Population may change providers within the plan. No waiver of freedom of choice is authorized for family planning providers.
  
4. **Retroactive Eligibility** **Section 1902(a)(34)**  
To the extent necessary to enable the state to not provide coverage for the Demonstration-Eligible Population for any time prior to the first day of the month in which the application was received by the State.
  
5. **Eligibility Standards** **Section 1902(a)(17)**  
To the extent necessary to enable the state to apply different eligibility methodologies and standards to the Demonstration-Eligible Population than are applied under the State plan.
  
6. **Methods of Administration: Transportation** **Section 1902(a)(4), insofar as it incorporates 42 CFR 431.53**  
To the extent necessary to enable the state to not assure transportation to and from providers for the Demonstration-Eligible Population.
  
7. **Dental, Hearing and Vision Services** **Section 1902(a)(43)**  
To the extent necessary to enable the state to not provide coverage of dental, hearing and vision services to 19- and 20-year-old individuals in the Demonstration-Eligible Population.
  
8. **Payment to Federally Qualified Health Centers  
Rural Health Centers** **Section 1902(a)(15)**  
  
To the extent necessary to enable the state to not reimburse FQHCs and RHCs the full cost reimbursement for services provided to the Demonstration Eligible Population.

**CENTERS FOR MEDICARE & MEDICAID SERVICES  
WAIVER LIST**

**NUMBER:** 11-W-00245/5  
**TITLE:** Healthy Michigan Section 1115 Demonstration  
**AWARDEE:** Michigan Department of Community Health

All requirements of the Medicaid program expressed in law, regulation and policy statement, not expressly waived or identified as not applicable in accompanying expenditure authorities, shall apply to the demonstration project effective December 30, 2013 through December 31, 2018. In addition, these waivers may only be implemented consistent with the approved Special Terms and Conditions (STCs).

Under the authority of section 1115(a)(1) of the Social Security Act (the Act), the following waivers of state plan requirements contained in section 1902 of the Act are granted subject to the STCs for the Michigan Adult Coverage section 1115 demonstration.

**1. Premiums** **Section 1902(a)(14) insofar as it incorporates Sections 1916 and 1916A**

To the extent necessary to enable the state to require monthly premiums for individuals with incomes between 100 and 133 percent of the Federal Poverty Level (FPL).

**2. Statewideness** **Section 1902(a)(1)**

To the extent necessary to enable the State to operate the demonstration and provide managed care plans, only in certain geographical areas.

**3. Freedom of Choice** **Section 1902(a)(23)(A)**

To the extent necessary to enable the State to restrict freedom of choice of provider for the demonstration-eligible population. No waiver of freedom of choice is authorized for family planning providers.

**4. Proper and Efficient Administration** **Section 1902(a)(4)**

To enable the State to require beneficiaries to use a single prepaid inpatient health plan or prepaid ambulatory health plan in a region or region(s) and restrict disenrollment from them.

**5. Amount, Duration and Scope  
of Services and Comparability**

**Section 1902(a)(10)(B)**

To the extent necessary to enable the state to offer services to the demonstration-eligible population enrolled in a Medicaid Health Plan that are additional benefits (e.g., such as case management, health education), in accord with the approved Michigan Alternative Benefit Plan.

**6. Comparability**

**Section 1902(a)(17)**

To the extent necessary to enable the state to impose lower contributions for individuals who achieve Healthy Behaviors incentives and rewards.