

Exhibit A



DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

Administrator

Washington, DC 20201

DEC 14 2007

Mr. E. Mitchell Roob, Jr.
Secretary
Indiana Family and Social Services Administration
402 West Washington Street
Indianapolis, IN 46207

Dear Mr. Roob:

We are pleased to inform you that the Indiana section 1115 Medicaid demonstration project, entitled Healthy Indiana Plan (HIP) (Project No. 11-W-00237/5) has been approved for a 5-year period, January 1, 2008, through December 31, 2012, in accordance with section 1115(a) of the Social Security Act (the Act).

Our approval of the HIP section 1115(a) demonstration project, including the expenditure authorities provided thereunder, are conditioned upon compliance with the enclosed Special Terms and Conditions (STCs). The STCs set forth in detail the nature, character, and the extent of Federal involvement in the demonstration. The STCs are effective January 1, 2008, unless otherwise specified. All the requirements of the Medicaid program expressed in law, regulation, and policy statement, not expressly waived or identified as not applicable in the enclosed expenditure authority list, shall apply to the HIP demonstration.

The Department of Health and Human Services' approval of HIP, including the associated expenditure authorities, is contingent upon compliance with the enclosed list of STCs.

As a result of this approval, the pregnant women, parents, and children who currently receive services through capitated managed care health plans through the 1915(b) waiver will be transferred from the 1915(b) waiver to the HIP section 1115 demonstration project. These populations will continue to receive Medicaid State plan benefits through the Hoosier Healthwise (HHS) program. The members of the Aged, Blind, and Disabled population who receive services through Care Select, the State's primary care case management program, will continue to receive services through the 1915(b) waiver.

The HIP provides a high-deductible health plan and an account styled like a health savings account called a Personal Wellness and Responsibility (POWER) Account to uninsured adults including uninsured custodial parents of Medicaid and State Children's Health Insurance Program (SCHIP) children with family incomes above the Medicaid State plan limit, which is approximately 22 percent of the Federal poverty level (FPL). Therefore, HIP is available to uninsured custodial parents of Medicaid and SCHIP children with family incomes above approximately 22 percent of the FPL and up to and including 200 percent of the FPL. HIP is also available to uninsured custodial parents of Medicaid children with incomes below the Medicaid State plan limits, but above the Medicaid State plan resource limit of \$1,000. Finally, HIP is also available to uninsured

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non-custodial parents and uninsured childless adults with family incomes up to and including 200 percent of the FPL. Participation in HIP is voluntary, but all enrollees will be required to receive medical care through private health plans. Enrollees must also make specified monthly contributions to their POWER Accounts as a condition of continued enrollment. These contributions will not exceed 5 percent of annual family income. Enrollees must also make specified monthly contributions to their POWER accounts as a condition of continued enrollment. These contributions will not exceed 5 percent of annual family income.

The demonstration is approved with a without waiver per capita cost trend rate of 4.40 percent. The estimated total computable budget neutrality limit for the 5 years of the demonstration is \$10,626,086,285. The demonstration will allow Indiana to use a portion of its disproportionate share hospital (DSH) funds to fund the demonstration. The amount of the DSH diversion will equal the State's DSH allotment (Federal share) per year minus \$151,183,400 (Federal share). The management of your program within the approved budget cap is essential to successfully meet the terms of budget neutrality for the demonstration project.

Please note that the STCs require that the State identify and verify \$15 million (total computable) in additional savings in its Medicaid program. The sources of savings include expanded third-party liability cost recoveries, estate recoveries, and fraud and abuse recoveries. The State may submit an amendment to the demonstration to modify, remove, or propose additional measures of savings. If the State does not achieve savings of \$15 million (total computable) by the end of demonstration year 5, the State must return to the Centers for Medicare & Medicaid Services (CMS) the Federal share of the difference between \$15 million (total computable) and the verified level of savings (total computable).

With the approval of this demonstration, CMS is permitting the State to test a model of health coverage that emphasizes private health insurance, personal responsibility, and "ownership" of health care. As such, we are also permitting the State to include program features that are compatible with such a model, as described below.

We are permitting Indiana to impose a \$300,000 annual benefit limit and a \$1 million lifetime benefit limit on HIP Caretakers and HIP Adults. We expect the State to monitor people who approach these benefit limits. The STCs require that the State report on the number of individuals who are within \$100,000 of reaching the annual or lifetime benefit limits. The STCs also require that the State evaluate the number of HIP participants who reach the \$300,000 and \$1 million lifetime benefit limits and how these participants go about meeting their health care needs after their HIP benefits are exhausted.

We are also permitting Indiana to provide only one health plan option to the HIP population in the first year of the demonstration, and to limit participants' ability to switch plans after they have made an initial POWER Account contribution. We expect the State to monitor the effect of these provisions on enrollees' access to care and to include a study of the impact of these provisions in the evaluation of the demonstration. Also, please note that the STCs include a

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requirement that at least one additional plan be offered during the demonstration's second year of operation.

As indicated in the STCs, all requirements of the Medicaid program, unless specified otherwise in the STCs, waiver list, or expenditure authorities or otherwise listed as not applicable, shall apply to the demonstration. Therefore, HIP must comply with all section 1927 requirements, which outline the Medicaid Drug Rebate Program.

Finally, Indiana had requested a waiver of section 1902(b)(2) to impose a 12-month State residency requirement. We have not made Indiana exempt from Section 1902(b)(2) of the Act because the U.S. Supreme Court decided in *Shapiro v. Thompson*, 394 U.S. 618 (1969) that a 1-year durational residency requirement for receiving welfare benefits was unconstitutional because it interfered with a person's fundamental right of interstate movement. As a result, Indiana may not impose a 12-month State residency requirement on HIP members.

A full listing of the approved waiver and expenditure authorities for the demonstration is enclosed.

Written notification to our office of your acceptance of this award must be received within 30 days after you receive this letter. Your project officer is Ms. Julie Sharp. She is available to answer any questions concerning this demonstration project. Ms. Sharp's contact information is as follows:

Centers for Medicare & Medicaid Services
Center for Medicaid and State Operations
7500 Security Boulevard
Mailstop S2-01-16
Baltimore, MD 21244-1850
Telephone: (410) 786-2292
Facsimile: (410) 786-5882
E-mail: Juliana.Sharp@cms.hhs.gov

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

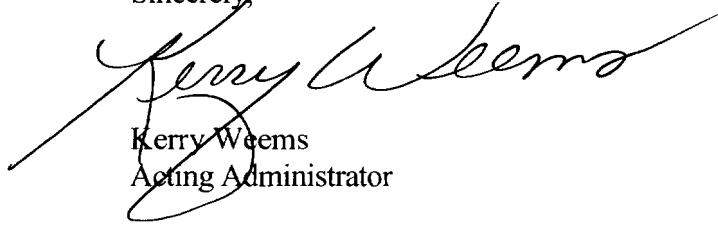
Centers for Medicare & Medicaid Services
233 N. Michigan Avenue, Suite 600
Chicago, IL 60601-5519

If you have questions regarding this correspondence, please contact Ms. Susan Cuerdon, Acting Director, Family and Children's Health Programs Group, Center for Medicaid and State Operations, at (410) 786-5647.

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We look forward to continuing to work with you and your staff.

Sincerely,

A handwritten signature in black ink, appearing to read "Kerry Weems". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Kerry Weems
Acting Administrator

Enclosure

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cc: Verlon Johnson, ARA, Region V
Leslie Campbell, State Representative