



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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### **1 VAC 55-20 –Commonwealth of Virginia Health Benefits Program The Department of Human Resource Management July 5, 2005**

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The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

### **Summary of the Proposed Regulation**

The proposed amendments will no longer require that a child be claimed as a dependent on the federal income tax return in order for a state employee to provide health benefits to that child. Instead, pursuant to the federal Working Families Tax Relief Act, the proposed regulations will establish dependency criteria based on relationship, residency, and self-support in order for a state employee to provide health benefits to a child.

### **Estimated Economic Impact**

Currently, the regulations require that a state employee claim a child on the federal income tax return in order to provide health benefits to that child. This requirement has created confusion as to when a child is eligible to receive health benefits under the employee's health coverage. For example, the Internal Revenue Service does not allow a person to claim a child as dependent if that child is earning over \$3,500 a year. In addition, the membership changes to the state health benefits plan are made on a prospective basis. Therefore, in order for an employee to determine if a child is eligible for health benefits, he or she must accurately estimate in advance

whether the child will be making over \$3,500 in that year. Moreover, because the Department of Human Resource Management (the department) does not have access to information such as child's income, eligibility determination for dependency solely relies on self reported information making it impossible for the department to monitor compliance with this requirement.

Also, as of December 2004, the federal Working Families Tax Relief Act removed the Internal Revenue Service requirement that a qualifying child be claimed as a dependent on their federal income tax return and established the dependency criteria based on relationship, residency, age, and self-support. The proposed changes will adopt the same dependency criteria for a qualifying child.

According to the department, the only effect of these changes is that the Commonwealth will no longer require an employee to claim a child on the federal income tax return to provide health benefits to that child. Because the eligibility determination for dependency solely relies on self reported information and because it is impossible for the department to monitor compliance with this requirement, employees are not expected to show a significant behavioral response in their self reporting of information to this change. Thus, the proposed change is not expected to create a significant economic impact in practice other than the benefits that may result from clarified and enforceable regulations.

## **Businesses and Entities Affected**

The proposed regulations apply to approximately 83,000 state employees. Of these, approximately 33,000 estimated to have health coverage for a dependent child.

## **Localities Particularly Affected**

The proposed regulations apply throughout the Commonwealth.

## **Projected Impact on Employment**

No significant impact on employment is expected.

## **Effects on the Use and Value of Private Property**

The proposed regulations are not expected to have a significant impact on the use and value of private property.

**Small Businesses: Costs and Other Effects**

The proposed regulations are not expected to create any administrative or other costs for small businesses.

**Small Businesses: Alternative Method that Minimizes Adverse Impact**

The proposed regulations will not affect small businesses.