Economic Impact Analysis
Virginia Department of Planning and Budget

12 VAC 30-20 – Administration of Medical Assistance Services
Department of Medical Assistance Services
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Summary of the Proposed Amendments to Regulation

The proposed regulations make Medicaid recipients with a family health care coverage for three or more non-Medicaid family members ineligible for participation in Health Insurance Premium Payment program, update the regulations to conform to the practice of handling high deductible health plans, and clarify some of the current requirements.

Result of Analysis

There is insufficient data to accurately compare the magnitude of the benefits versus the costs. Detailed analysis of the benefits and costs can be found in the next section. A different design would likely yield greater benefits for at least one proposed change.

Estimated Economic Impact

The proposed regulations make Medicaid recipients with family health care coverage for three or more non-Medicaid family members ineligible for participation in the Health Insurance Premium Payment program (HIPP). Under HIPP, Medicaid pays for the employee's share of the health insurance premium and any other cost sharing fees if participation is found to be cost effective for Medicaid. Participation is considered cost effective if the premium assistance subsidy is likely to be less than the expected total expenditures that will be spent on that person's Medicaid coverage.

Prior to the proposed changes, a Medicaid recipient who is covered under a family health insurance program was eligible to receive a premium assistance subsidy for the entire cost of the plan. Chapter 781, Item 306 AAA of the 2009 Appropriation Act directed the Department of Medical Assistance Services (DMAS) to promulgate regulations making existing family healthcare coverage a factor in the determination of cost effectiveness. In response, the proposed regulations make participation in HIPP ineligible for those with a family health insurance plan for three or more non-Medicaid family members. Emergency regulations have been in effect and DMAS has been denying premium assistance to those with family health coverage with three or more non-Medicaid family members since October 5, 2009.

The main economic impact of these regulations falls on the families whose HIPP eligibility will now be denied. These families will no longer receive the subsidy they used to receive. Prior to the emergency regulations, Medicaid was paying 100 percent of the employee's share of the family health plan which may have covered Medicaid ineligible parents or other children. Under the proposed changes, individuals with a family health plan for three or more non-Medicaid family members are ineligible to participate in HIPP. In response to the proposed changes, these families may or may not keep the Medicaid eligible family member in the family health plan.

If the families keep the Medicaid eligible member in their family health plan, then the Commonwealth enjoys expected savings in terms of the reduced subsidy payments without an increase in total Medicaid expenditures. This scenario is more likely in cases where dropping Medicaid eligible family member from the family health plan does not reduce the plan premiums or the family plan coverage is superior for the Medicaid eligible family member.

However, if families drop the Medicaid eligible family member from the family health plan, the medical expenses of that Medicaid eligible family member would be paid 100% by Medicaid. In this scenario, the Commonwealth would realize savings by not paying the subsidy, but would incur additional costs by paying for all healthcare expenses. Families may be inclined to use this option if dropping the Medicaid eligible family member from the family health plan reduces the plan premiums or Medicaid coverage is better than the family plan coverage for the Medicaid eligible individual.

DMAS estimates that this change produces $1.3 million savings annually in premium assistance subsidy to approximately 362 recipients. One half of these funds represents savings to the Commonwealth and the remaining half represents savings to the federal government. However, the additional expenditures the Medicaid program may incur because families drop the Medicaid eligible family member from the family health plan is not known. If the additional expenditures to the Medicaid exceed $1.3 million, the proposed changes may result in net costs to Virginia Medicaid.

It is important to note that the net economic effect of the proposed regulations on Virginia Medicaid depend on whether families keep the Medicaid eligible member in the family insurance plan. The proposed regulations do not contain any incentives for the families to keep the Medicaid eligible member in the family insurance plan. If there are enough cases where the Medicaid eligible family member is dropped from the family health plan, the additional health expenditures Medicaid would have to pay may exceed $1.3 million. Thus, there is chance that the proposed regulations may actually produce net costs rather than net benefits.

If incentives are provided to families to keep the Medicaid eligible member in the family insurance plan, the proposed changes would be more likely to produce net savings. For example, a subsidy may be given for the incremental cost of covering the Medicaid eligible member in the family insurance plan. If it is impossible to determine this incremental cost of coverage, the subsidy may be determined by prorating the number of children on the plan or the number of individuals on the plan. In short, instead of counting on families to keep their Medicaid eligible member in the family insurance plan, the proposed regulations could be designed to actually provide them with incentives to do so to ensure that the proposed changes actually provide net savings to Virginia Medicaid. It also appears that providing a subsidy for the Medicaid eligible member’s share of the family insurance premium would be more consistent with the intent of the HIPP program.

The proposed changes also update the regulations to conform to the practice of handling high deductible health plans. According to DMAS, since 2008 high deductible health plans have been considered ineligible to participate in HIPP. The proposed changes will reflect this change in practice. Although no immediate economic impact is expected upon promulgation of this particular change, DMAS estimates that from June 2008 through March 2010, 66 cases have been cancelled for high deductible plans representing $277,719 savings in premium assistance subsidy.

All of the remaining proposed changes are clarifications of the current requirements. None of these clarifications are expected to have any significant economic impact other than improving the clarity of the regulations and preventing potentially costly misunderstandings.

Businesses and Entities Affected

The proposed family health care related changes are estimated to affect 362 participants and the changes related to high deductible health plans are estimated to affect 66 participants in the HIPP program.

Localities Particularly Affected

The proposed regulations do not affect any locality more than others.

Projected Impact on Employment

The proposed changes are not expected to have a significant direct impact on employment.

Effects on the Use and Value of Private Property

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

Small Businesses: Costs and Other Effects

The proposed regulations do not introduce any direct costs or other effects on small businesses.

Small Businesses: Alternative Method that Minimizes Adverse Impact

The proposed regulations do not introduce an adverse impact on small businesses.

Real Estate Development Costs

No effect on real estate development costs is expected.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 107 (09). Section 2.2-4007.H 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. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB’s best estimate of these economic impacts.