Economic Impact Analysis
Virginia Department of Planning and Budget

12 VAC 30-50; 120; 141 – Amount, Duration and Scope of Services: Dental Services; Family Access to Medical Insurance Security Plan
Department of Medical Assistance Services
November 18, 2005

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 21 (02). 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. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

The Department of Medical Assistance Services (DMAS) proposes to combine, and make permanent, two separate emergency regulatory actions that have changed the system through which dental services are delivered to children residing in low income households. One of these emergency actions removed dental services for children and eligible adults from both Medicaid and Family Access to Medical Insurance Security (FAMIS) managed care and combined these services in the new program called *Smiles for Children*. The other emergency action recategorized the state's prior authorization regimen for dental services so that the publicly funded dental insurance requirements were more in line with private insurance requirements.

Estimated Economic Impact

Prior to the emergency actions that this proposed regulatory change will replace, dental services were bundled with other healthcare services and offered through the Medicaid and

FAMIS programs. All offered services were delivered in the same way; eligible individuals in most areas of the state were signed up for, and had services delivered through, one of five managed care organizations (MCOs). In areas of the state that have no MCO coverage, services for eligible individuals were reimbursed on a fee-for-service basis. Going forward, this proposed regulatory change removes dental services from the service bundles offered by MCOs to Medicaid and FAMIS recipients and converts these services into a completely fee-for-service system that will be administered by one company. Doral, a company based in Wisconsin, currently holds the contract with the DMAS; they will administer the fee-for-service dental program and will process bills from dentists and payments for those bills from DMAS.

DMAS is changing the delivery system for publicly funded dental care because they want to improve currently low service usage rates and dentist participation rates. At present, 25% of eligible Medicaid and FAMIS recipients use the dental services that are available to them. Only 620 of the 5347 dentists licensed in the Commonwealth participate in MCO or fee-for-service plans. It is likely that part of the reason Medicaid and FAMIS recipients do not use the dental benefits for which they are eligible is that so few dentists will accept them as patients. DMAS wants recipients to increase usage of dental services because, according to their research, improving dental health can improve the overall health of individuals. This being the case, it is reasonable to work toward increasing dentist participation as a means to increase recipient usage. Fee-for-service rates, where increased services mean increased revenue, offer dentists more incentive to care for Medicaid and FAMIS recipients than do flat rate MCO reimbursements; if DMAS's goal is to increase dentist participation rates, it is logical to make the switch from reliance on MCOs to a strictly fee-for-service system.

DMAS estimates that this switch will be a cost neutral move for the Commonwealth. DMAS currently pays out about $3.5 million per year total to the five MCOs for administration of dental services. Doral will receive about $4.3 million per year for administering the *Smiles for Children* program. Doral's administration fee is based on the total number of eligible individuals rather than the number of eligible individuals who actually use dental services because DMAS does not currently have sufficient data to know how many users there will be. As this data becomes available, negotiating a fee based on the number of service users may save the Commonwealth money and will certainly offer whatever company has the administrative

contract at that point an incentive to increase the number of eligible individuals who actually use available dental services.

In the short run, the state may pay out less for fee-for-service dental services than they have historically paid MCOs. MCOs received, on average during FY 2005, $7.76 per eligible MCO member per month specifically as payment for dental services. Before *Smiles for Children* was implemented, about 71% of eligible children were enrolled in MCOs. Assuming that the same percentage of eligible adults received managed care dental services, total state expenditures to MCOs would have been around $40 million. DMAS expects to pay out about $36 million in fee-for-service payments this year. In the long run, if this program change increases dental service usage, state expenditures will likely increase beyond what would have been paid out under a MCO system. Any increased cost associated with better utilization of dental care may be mitigated if better dental care leads to better overall health for Medicaid and FAMIS recipients since healthier people will likely seek general health care less often. In any case, Virginia splits both cost savings and cost increases for Medicaid and FAMIS with the federal government; the federal government reimburses Virginia for 50% of all eligible Medicaid expenditures and 65% of all eligible FAMIS expenditures.

This regulatory change will certainly decrease revenue for the MCOs that will no longer be providing dental services but, again, the negative effect that this decrease in revenue has on MCO profits may be mitigated. If members who get more dental care reduce the amount of other health care services that they use, and per member per month payments from DMAS to the MCOs do not change, MCOs will see increased profits that will partially or wholly replace the loss of revenue from the removal of dental care from their management. Dental care payments have accounted for 2-3% of total payments made to MCOs for Medicaid and FAMIS members.

Before emergency regulations changed the authorization regimen for Medicaid and FAMIS plan dental services, DMAS had listed in regulation all services that did not require prior authorization so that all services that were not listed did required patients to seek authorization before services were rendered. Emergency and this proposed regulatory change will reverse this pattern and bring DMAS regulation in line with common practice in the private insurance industry: services that require prior authorization will now be explicitly listed in regulation, and any services that are not listed, but are covered, will not require prior authorization. This

approach will help eligible individuals to better understand what is required of them before they seek dental care and will make billing slightly less complicated for dentists' offices.

Businesses and Entities Affected

Approximately 420,000 children and 200,000 adults in the Commonwealth are eligible to receive dental services through either Medicaid or FAMIS; five MCOs have been managing services for the majority of these individuals. One company will now administer dental services for all Medicaid and FAMIS recipients under the new, separate, fee-for-service plan. Currently, 620 dentists in the Commonwealth provide services for Medicaid and FAMIS recipients either through one of the five MCOs or on a fee-for-service basis; 5347 dentists are licensed in Virginia. All of these individuals and businesses are affected by or, for dentists who are capable of providing covered services but do not do so right now, could potentially be affected by this proposed regulatory change.

Localities Particularly Affected

All localities in the Commonwealth will be affected by the proposed regulatory change.

Projected Impact on Employment

The MCOs that have been managing all services for the majority of Medicaid and FAMIS recipients may need fewer employees when dental services are removed and administered elsewhere. Since only 25% of eligible recipients have been using dental services, and the money paid to MCOs specifically for dental services has been only 2-3% of their total fees, the number of employees who would be affected is probably comparatively small. The new fee-for-service dental coverage will be administered, for the time being at least, by a company that is not located in Virginia. The net effect of the proposed regulation on employment in the field of health care administration is likely to be negative.

Effects on the Use and Value of Private Property

To the extent that the proposed regulation increases the income of dentists who provide services to Medicaid and FAMIS recipients, the net worth of dentists and the value of dental practices will increase. The net value of the affected MCOs will likely decrease by an amount equal to the 2-3% of total fees that they will no longer be paid minus the labor and other costs associated with administering dental services that they will no longer incur.

Small Businesses: Costs and Other Effects

The dentists who choose to provide services for Medicare and FAMIS recipients are not likely to see an increase in their administrative costs; they may even see these costs decline. Since the company who will be administering the fee-for-service dental plan will be actively recruiting new dentists, they have every incentive to minimize any administrative costs and bureaucratic hassles that would discourage dentists from participating. In addition, changes in the prior authorization regimen for Medicaid and FAMIS recipients will make the work of filing claims slightly easier and less time consuming.