



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

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### **12 VAC 30-40 –Department of Medical Assistance Services More Liberal Methods of Treating Income and Resources May 14, 2004**

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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 changes will (i) eliminate the resource test for low-income families with children and individuals under age 21 for whom a public agency is assuming full or partial financial responsibility, (ii) clarify that earned income of a child younger than age nineteen who is a student is disregarded in eligibility determinations, and (iii) clarify that the value of all in-kind support and maintenance received by members of the family and children's covered groups is disregarded.

### **Estimated Economic Impact**

These regulations establish eligibility criteria and methods of counting income and resources when determining Medicaid eligibility for low-income families with children and for individuals under age 21 (foster care, adoption assistance, mentally retarded, and corrections children). In fiscal year 2003, approximately 79,940 adults and children were eligible for Medicaid services under these two eligibility categories and the total Medicaid reimbursement was about \$204 million. Local departments of social services perform Medicaid eligibility

determinations for these two groups, for which they receive compensation from the Department of Medical Assistance Services (DMAS). In fiscal year 2003, Department of Social Services received approximately \$103 million from federal and state funds to perform this function for all eligibility determinations performed for Medicaid, including the two groups affected by these regulatory changes.

***Resource eligibility rules:*** One of the proposed changes will eliminate the resource eligibility rules for individuals under age 21 and for low-income families with children. Currently, the assistance is provided to families with countable resources less than or equal to \$1,000. Countable resources include non-home real property, motor vehicles, cash and other liquid assets, bank accounts, life insurance, burial arrangements, child support refunds, and loans or promissory notes. However, numerous resources do not count toward the \$1,000 limit. Among these items are the exclusion of one vehicle and up to \$5,000 in a savings account for the purposes of “self-sufficiency.” Enforcement of resource rules requires the local departments of social services to collect information from the applicant and then verify the reported cash resources, bank accounts, trust funds, stocks, bonds, mutual funds, or any other financial assets.

In FY 2003, 59 applications were denied for excess resources in the two affected groups. Based on this information, DMAS proposes to eliminate all of the resource eligibility criteria for these groups. It is estimated that this change will increase the medical assistance provided by \$153,000 for 59 recipients and provide \$216,000 savings in administrative costs for the local departments of social services annually as DMAS will not change eligibility determination payments to the Department of Social Services.<sup>1</sup>

One of the significant effects of this change is providing expanded access to medical care for low-income families and children under age 21. In addition, the proposed changes will streamline the eligibility requirements with other programs to different degrees. Recent regulatory changes eliminated all of the TANF resource criteria. Also, children under the medically indigent poverty level group and FAMIS have no resource rules and all other Medicaid covered groups disregard one automobile of any value in the Medicaid eligibility

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<sup>1</sup>These estimates are based on the following assumptions: a) 59 additional recipients will be eligible for Medicaid, b) average annual cost for a recipient will be \$2,593, c) DSS will not have to perform resource test on 12,000 applications, d) average cost of application processing will be \$120, and e) the average processing costs will be reduced by 15%.

determination. Thus, the resource requirements will be aligned with several other programs, which will likely improve the efficiency of the eligibility determination process and reduce the potential for erroneous determinations.

Although DMAS expects some net fiscal benefits from this change, if 59 additional recipients is an underestimate, the agency's expectation may not be realized. The expected number of recipients who would be eligible when the resource rules are eliminated is based on the historical data. However, the use of historical data for this estimation is statistically biased downward, as it does not consider the behavioral response of rational potential recipients to this change. After the resource rules are eliminated, a number of applicants with excess resources may apply and qualify. The historical data does not contain information on such cases because people with excessive resources would not apply while these resource rules are in place. Thus, the expected increase in the number of recipients and the costs may be underestimated. In other words, the behavioral response of the potential recipients may be higher than the estimated 59 additional persons because this estimate assumes that the effect of behavioral response will be zero. Also, this proposed change will provide incentives to people to convert their stream of income into a resource and gain eligibility for Medicaid benefits. Such transactions are often not very difficult to arrange. For example, a divorce settlement may provide for a cash settlement rather than a stream of support payments. Thus, there could be an additional increase in the Medicaid recipients not accounted for in the department's estimated fiscal impact.

However, no data currently exists to make a reliable estimate of the magnitude of this effect. It is likely that the behavioral response will be relatively small because people with low incomes tend to have low resources. Also, there is the possibility that the added incentives for asset accumulation may help some of the recipients move out of poverty.

In short, while there are a number of mitigating factors, the actual long-term costs of this proposed change may be greater than the estimated 59 additional Medicaid cases when potential recipients adjust their behaviors to maximize their benefits under the proposed rules with no resource criteria.

An alternate and lower risk way of reducing costs associated with administration of resource rules could be conducting random verifications of reported resources. The main purpose of the proposed change is to reduce administrative costs. The random check approach is

a cost effective and a sound practice utilized in many other regulatory programs. In this case, the random check approach has the potential to provide significant administrative cost savings without introducing fiscal risks. For example, randomly verifying 10% of the cases would reduce the administrative staff time by 72% and there would be no significant fiscal risks from behavioral response of recipients.<sup>2</sup> However, a random verification approach would not be as effective unless it is consistent with eligibility determinations for other programs such as FAMIS and TANF. Given the recent trend toward eliminating resource criteria for welfare programs, the potential benefits of the random check approach that applies only to the low-income families with children and individuals under age 21 groups appear to be limited.

***Earned income of a student:*** Another proposed change will clarify that the earned income of a child under the age of nineteen who is a student is disregarded. Similarly, this change applies to the eligibility determinations for the low-income families with children and the individuals under age 21 groups. Since 2002, this income has not been counted in the eligibility determinations as a result of a policy initiative. Thus, no significant economic effect is likely to occur upon promulgation of the proposed changes. When the student income was no longer counted in 2002, the effects of this change probably included an increase in the publicly funded Medicaid expenditures for additional recipients and a potential improvement in their health status and school performance and some administrative cost savings for DSS due to reduced workload in eligibility determinations. No longer counting student income may have also provided incentives for Medicaid-eligible students to work. However, there is no available data on the number of additional recipients who may have qualified for Medicaid following the policy initiative implemented in 2002.

***Value of in-kind support:*** Finally, another proposed change will clarify that the fair market value of in-kind support and maintenance such as food, clothing, or shelter provided to Medicaid applicants under the low-income families with children and the individuals under age 21 groups will not be counted as income.

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<sup>2</sup> This is based on the following assumptions a) there are 12,000 affected cases, b) it takes 3 minutes staff time to collect resource information and 12 minutes to verify that information on average.

This proposed change reflects the current practice that has always been followed when determining eligibility for Medicaid coverage. Thus, this change is not expected to have any significant fiscal or economic effects other than conforming regulations to current practice.

### **Businesses and Entities Affected**

The proposed regulations apply to applicants for Medicaid coverage under the low-income families with children and the individuals under age 21 groups. In fiscal year 2003, approximately 55,000 adults and 21,500 children were eligible for health care under these two groups.

### **Localities Particularly Affected**

The proposed regulations will not uniquely affect any particular locality as they apply statewide.

### **Projected Impact on Employment**

The proposed regulations are expected to provide some administrative savings for the local departments of social services. However, there does not seem to be any plan to reduce the number of eligibility workers at this time. On the other hand, the expected 59 additional recipients may cause an increase in the health care services actually provided. However, the actual increase would be significant only if these recipients would not have received any services if they are not covered by Medicaid. But, it is very likely that some of the 59 recipients would have received at least some services through hospital emergency rooms or through other means. Thus, while the proposed changes have the potential to increase demand for labor, the magnitude of the effect is unknown.

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

The proposed regulations are not anticipated to have a significant effect on the use and value of private property unless the payments for additional recipients are significant to affect provider's future stream of profits.