



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

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**12 VAC 30-20 – Administration of Medical Assistance Services**  
**Department of Medical Assistance Services**  
February 8, 2013

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### **Summary of the Proposed Amendments to Regulation**

Pursuant to Item 300 H of the 2011 Virginia Appropriations Act, the proposed changes require 1) that fee-for-service Medicaid providers submit their claims electronically for services rendered and 2) that providers participate in electronic funds transfer for the payment of their claims. These changes are already in effect as of July 1, 2012 under the emergency regulations.

### **Result of Analysis**

The benefits exceed the costs for one or more proposed changes. There is insufficient data to accurately compare the magnitude of the benefits versus the costs for at least one change.

### **Estimated Economic Impact**

Pursuant to Item 300 H of the 2011 Virginia Appropriations Act, one of the proposed changes requires that fee-for-service Medicaid providers submit their claims electronically for services rendered. However, the proposed changes allow the Department of Medical Assistance Services (DMAS) to grant a variance for providers having a hardship with electronic filing.

Prior to this change, electronic claim filing was optional. In Fiscal Year (FY) 2011, 19 million or 84% of approximately 22.6 million total claims had been voluntarily filed by electronic means. DMAS anticipates that once the transition is completed, approximately 95% of all claims will be filed electronically while 5% will continue to be filed on paper due to variances that may be issued. Thus, the proposed requirement is ultimately estimated to decrease paper claims by 2.5 million and increase electronic claims by the same amount. The FY 2013 costs for paper and electronic claims processing are \$0.483 and \$0.195 per claim, respectively. In other words, electronic claims are \$0.288 cheaper per claim to process. Thus, DMAS can expect to save approximately \$711,930 per year in costs for claims processing. One half of this amount

represents savings in state funds as 50% of Virginia Medicaid expenditures are funded by the federal government. The magnitude of the expected savings is subject to change depending on the number of claims filed which is driven by various factors such as increases in member enrollment, decreases in fee-for-service population as a result of Managed Care expansion, and utilization of services.

To facilitate the transition, DMAS, through its claims processing contractor, created a web-based direct data entry mechanism in 2011. The cost of creating this mechanism was fully borne by the contractor without an increase in the contract price. Also, this claims submission mechanism is available to providers at no cost. However, any required modifications to this mechanism will require additional expenditures. DMAS has paid \$276,600 for four system enhancements since its inception.

The impact of this change on administrative compliance costs of providers appears to be mixed. According to DMAS, providers with small claims volume and simple procedures may find it easier to file their claims electronically while large volume providers and providers with complicated procedures may experience the opposite effect.

Another proposed change requires participation of providers in electronic funds transfer for the payment of their claims except for good cause shown. In FY 2011, of the approximately 400,000 fund transfers, about 170,000, or 42%, were accomplished by paper checks. In January of 2013, only 9% of funds transfers were accomplished by paper checks. DMAS will continue to mail claim detail to its providers in most cases. Thus, only about \$5,000 is estimated to be saved in mailing costs by this change. Due to federal funding, only one half of these savings would accrue to the Commonwealth. Providers are also likely to realize some administrative savings due to reduction in time and possible travel involved in depositing paper checks.

### **Businesses and Entities Affected**

The electronic filing and electronic fund transfer requirements apply to approximately 47,000 providers participating in Virginia Medicaid.

### **Localities Particularly Affected**

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

## **Projected Impact on Employment**

The proposed changes may reduce demand for labor at small medical providers with simple procedures due to increased efficiencies from electronic filing and to produce savings in provider time and travel costs associated with depositing paper checks. However, large providers with complex procedures may need additional labor to file claims electronically.

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

No significant effect on the use and value of private property is expected. The asset value of the payment processing contractor may be negatively impacted as it will experience reduction in its revenues. However, this negative impact may be offset by additional revenues from system enhancements.

## **Small Businesses: Costs and Other Effects**

Most of the approximately 47,000 providers are estimated to be small businesses. The main impact on small businesses is an expected reduction in their administrative costs due to efficiencies expected from electronic claims filing and electronic funds transfer. However, large providers and providers with complex procedures are anticipated to experience inefficiencies due to the proposed electronic claims processing requirement.

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

The proposed regulations allow variances from the proposed requirements for good cause shown. There is no known alternative that minimizes the adverse impact while accomplishing the same results.

## **Real Estate Development Costs**

No significant impact 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 2.2-4007.04 of the Administrative Process Act and Executive Order Number 14 (10). Section 2.2-4007.04 requires that such economic impact analyses include, but need not be limited to, a determination of the public benefit, 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 an adverse effect on small businesses, Section 2.2-4007.04 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.