Economic Impact Analysis
Virginia Department of Planning and Budget

12 VAC 30-141 –Family Access to Medical Insurance Security Plan: FAMIS Select
Department of Medical Assistance Services
February 9, 2006

Summary of the Proposed Regulation

Pursuant to 2005 General Assembly actions[1], the proposed regulations contain a number of simplifying amendments to the Employer-Sponsored Health Insurance (ESHI) component of the Family Access to Medical Insurance Security (FAMIS) plan. The major modifications include (1) providing a flat monthly premium assistance amount per child as opposed to calculating premium assistance amounts and determining cost effectiveness on a case-by-case basis, (2) no longer restricting eligibility based on employer's contribution to the cost of the coverage, (3) no longer reimbursing copayments that may be required by the employers' health plan, and (4) no longer providing wrap-around services for the services that are not covered in the employer's plan.

The intent of the proposed changes is to simplify the administration of the premium assistance program and consequently increase enrollment. The proposed changes have been in effect since August 1, 2005 under emergency regulations.

Result of Analysis

The benefits likely 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 other changes. A different design would likely yield the same benefits at lower cost for at least one proposed change.

Estimated Economic Impact

FAMIS contains a premium assistance component that allows eligible families who have access to employer-sponsored health insurance coverage to enroll their children in their

[1] Chapter 951(Item 324 L) and Chapter 584 (32.1-351(D), 31.2-351(2), 31.2-351(3)).

employers' health plan. Prior to August 2005, the Employer -Sponsored Health Insurance (ESHI) was the premium assistance program of FAMIS. Under ESHI, the Department of Medical Assistance Services made premium payments on behalf of eligible participants if it is determined that such enrollment is cost effective, i.e., the cost of covering the child under FAMIS would be more than the total cost of covering the child under ESHI. ESHI enrollees were also provided supplemental coverage needed to ensure that health benefits were equivalent to those provided under FAMIS.

After experimenting with ESHI for four years, the program was found to be overly complicated to administer and maintained very low enrollment. Restrictions on employer contributions and the determination of cost effectiveness on a case-by-case basis required significant amounts of data and input from applicants as well as from their employers. The administrative requirements of the ESHI program probably discouraged many potential employees from applying and many employers from supplying the contribution amounts. Also, the provision of wrap-around services was not easily understood nor were they easy to access because they were exclusively provided by Medicaid providers. In addition, once the data was obtained, DMAS had to devote a significant amount of time to evaluate the eligibility for and the amount of premium assistance as well as the types of wrap-around services needed to comply with the ESHI requirements. Furthermore, the requirement that the employer contribute 40% of the family coverage is believed to hinder enrollment as employer contributions in many workplaces do not reach 40% of the total cost of coverage. In short, overly complicated administrative rules of ESHI were believed to prevent the program reaping the potential benefits that could be expected from a model where public and private health insurance closely interact with each other.

In response to the 2005 General Assembly directives, the proposed regulations simplify the employer sponsored insurance component of FAMIS. The simplified new program is named as "FAMIS Select." FAMIS Select differs from ESHI in four major ways. First, it provides a flat monthly premium assistance amount per child as opposed to calculating premium assistance amounts and determining cost effectiveness on a case-by-case basis. Second, FAMIS Select no longer restricts eligibility based on employer's contribution to the cost of the coverage. Third, it no longer reimburses copayments that may be required by the employers' health plan. Fourth, FAMIS Select no longer provides wrap-around benefits for the services that are not covered in the employer's plan.

The differences in FAMIS Select and ESHI are likely to create a number of economic effects on current participants, on potential participants, on DMAS, and on the Commonwealth. With the new changes, current participants will be paid a monthly flat assistance per child. The amount of the assistance will be calculated every year in order to make the program cost effective, i.e., the cost of covering the child under FAMIS Select must be less than the total cost of covering the child under FAMIS. Currently, the monthly premium assistance is $100 per child. This compares favorably to the average premium assistance paid under ESHI for the existing recipients. In 2003, enrollees received from DMAS $75.05 per child per month on average including payments for monthly premiums, payments for copayments, and payments for wrap-around service claims. Assistance payments for the 254 months of coverage (covering 44 children) totaled $19,061.35. Under the new rules, the total DMAS payments would be $25,400 for the same 254 months of coverage. Note that even though the recipients would no longer be reimbursed for wrap-around services and copayments, the amount of assistance they get from DMAS would be $24.95 higher per month per child or $6,338.65 higher for 254 months of coverage.

While the average payment for the coverage will increase, current participants will forego the coverage for wrap-around services and the reimbursements for the copayments that would normally be covered under ESHI. Based on averages, it would economically make sense for a current participant to stay in the premium assistance program and move to FAMIS Select if the monthly value of expected reimbursements for copays and wrap-around services is less than $24.95. According to 2003 data, average monthly payment for wrap-around services and for copays was about $7.50. This suggests that most recipients would be better off under the FAMIS Select compared to ESHI. Thus, most ESHI participants are expected to switch to FAMIS Select.[2] However, it cannot be ruled out that some families, particularly those with high expected copays and wrap-around services, could actually be worse off under FAMIS Select and therefore should not be expected to continue to participate in the premium assistance program.

[2] As of July 2005, no ESHI children chose to move to FAMIS.

The participation decision for the potential FAMIS Select enrollees will be made slightly different. A $100 flat monthly assistance amount per child for a family may actually help a family reduce its out of pocket insurance premium costs or help obtain coverage perhaps for additional family members. For example, adding two FAMIS children to the employer sponsored insurance policy may increase monthly premiums by only $150 and save the family $50 per month. In addition to the out of pocket premium savings, the potential enrollees must also take into account the value of wrap-around services that will be lost under FAMIS Select and copays differences between FAMIS Select and FAMIS. As long as the perceived value of FAMIS select exceeds additional benefits and low copayments provided under FAMIS for the family as a whole, it makes sense for a family to enroll in FAMIS Select.

Although the decision rule is relatively simple, it is probably quite difficult for a family to accurately value the benefits that will be forgone. An accurate valuation requires the family to know at the least what services will not be covered, the frequency of the doctor visits for such services, the out of pocket costs of those services, and any copayments that will not be covered. Most of these variables will not be known with certainty at the time a family makes a decision to enroll in FAMIS Select. While a family is probably best situated to assess the probability of some of these events occurring and to access the needed information, there will always be a chance for families to underestimate the value of forgone benefits and enroll in FAMIS Select while they should not. The fact that participation in FAMIS Select is voluntary and an enrollee could always drop off and go back to FAMIS should mitigate the potential adverse impact on some families. However, it may be worthwhile to add a requirement in the regulations that the potential enrollees be clearly informed that they will not get any additional FAMIS benefits and they will have to pay the out-of-pocket expenses associated with their employer's plan in order to ensure that they are fully aware of the consequences.

The fact that the monthly assistance amount may be less than the average cost of providing services through FAMIS could make more families worse off. For example, in 2003 average monthly medical costs for a child under FAMIS was $135.37 which includes all of the services some of which could be wrap-around services for some of the enrollees. Disregarding the administrative expenses, the monthly assistance amount must be less than or equal to $135.37. However, the current monthly premium assistance is $100 clearly not enough to pay for the same services under FAMIS. The difference of $35.37 or the services that could be purchased by that amount may be absorbed by the employer sponsored insurance company or the enrollee. In other words, if the assistance amount is set too low and the applicants are not well informed about the loss of coverage for some services, the potential negative effect on applicants could be elevated.

However, setting the assistance amount exactly equal to the average cost of FAMIS program could also create unintended affects. The voluntary nature of the participation and the fact that applicants who are likely to reduce their out-of-pocket insurance expenses are most likely to enroll could result in a movement of recipients with less intensive healthcare needs from FAMIS to FAMIS Select. If realized, such a movement could not only artificially increase the average cost per recipient in FAMIS, but also consistently overstate the monthly assistance amount for FAMIS Select participants.

Even though the actual likelihood of any of these two potential adverse effects occurring is not known, the long term trends should be closely monitored to prevent significant underpayment or overpayment to FAMIS Select enrollees.

The main immediate economic effect of the new program rules on DMAS is to reduce the average administrative costs of this program. Under ESHI, the eligibility for the program depended on the amount of employer contributions, the premium assistance amount was calculated on a case-by-case basis, and the type of wrap-around services was determined by comparing the employer sponsored insurance to the coverage provided under FAMIS. Thus, the administration of the program required collecting significant amounts of data and processing that information to determine eligibility and the assistance amounts. The new simplified program is expected to reduce average administrative costs. However, the total administrative costs could increase if the simplified program causes a significant increase in enrollment. In addition, not all reduction in DMAS's administrative costs should be viewed as net savings to the Commonwealth. Even though DMAS would not have to incur these administrative costs, potential enrollees will have to make cost comparisons very much the same way DMAS was doing in order to make a decision. However, this is not to say that it would probably be less costly for a potential enrollee to access and collect information that otherwise DMAS would have to under ESHI.

The fiscal effect of the new program on DMAS will depend on whether simplified rules would create a significant increase in enrollment and on the value of wrap-around services that will no longer be covered. As discussed earlier, in 2003, the average monthly medical cost per child was $135.37 in FAMIS and $75.05 in ESHI. Thus, for each child enrolled in ESHI the monthly medical expenditures were reduced by $60.32. Under the new FAMIS Select, monthly savings in medical expenditures per child is about $35.37. Assuming both FAMIS and FAMIS Select have the same coverage (i.e. there is no service to wrap around) and if the enrollment does not change, a certain amount of reduction in savings would be expected. For example, without the enrollment increase, the total savings from 254 months of coverage would decrease to $9,492 from $15,321, or a net fiscal loss of $5,829. If the enrollment under FAMIS Select increases more than 165 months of coverage, then the net fiscal impact would be positive. Also, FAMIS would likely to cover some additional services that would not be covered by employer sponsored health insurance. The more valuable the additional services covered under FAMIS are, greater is the expected savings to DMAS from FAMIS Select.

In addition to specific effects on the current enrollees, potential enrollees, and state, the employee sponsored health insurance model could have some overall effects on the Commonwealth as a whole. The ESHI component of FAMIS and now FAMIS Select have been a part of an experiment in trying to get private health insurance involved in providing health coverage to individuals that would otherwise be covered by public funds only. It represents an alternative way of providing FAMIS benefits. At the least, the experiment with ESHI showed that simplicity in administration was essential. It provided ideas about a better design to accomplish bringing together private and public resources to provide coverage to poor. Considering employer sponsored insurance coverage is one of the largest sources of insurance for children nationwide[3], this innovative model may have the potential to yield some tangible synergies in the future.

Businesses and Entities Affected

The proposed regulations apply to FAMIS enrollees who are interested in participating in employer sponsored insurance component, FAMIS Select. The expected enrollment in FAMIS Select is 100 in federal fiscal year 2005, 400 in 2006, and 800 in 2007.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

Projected Impact on Employment

The proposed regulations are unlikely to have a significant impact on employment.

Effects on the Use and Value of Private Property

The proposed regulations are unlikely to have a significant effect on the use and value of private property.

Small Businesses: Costs and Other Effects

The monthly flat insurance premium assistance amount may enable some families obtain coverage for additional family members through employer sponsored health plan and provide incentives to uninsured employees to purchase coverage through the employer's plan. Higher insurance costs for additional enrollment may increase employer's share of contributions.

Small Businesses: Alternative Method that Minimizes Adverse Impact

There is no known alternative method to minimize potential increase in employer's share of health insurance contributions.

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 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. 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

[3] Enrolling Uninsured Low-Income Children in Medicaid and Chip, 2002, Kaiser Commission on Medicaid and the Uninsured.

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.