Virginia Department of Planning and Budget

Economic Impact Analysis

12 VAC 30-141 Family Access to Medical Insurance Security Plan
Department of Medical Assistance Services
June 18, 2015

Summary of the Proposed Amendments to Regulation

The proposed changes remove the current exclusion in regulations and allow low-income state employees, whose children are otherwise eligible for Family Access to Medical Insurance Security Plan, to be enrolled in the program.

Result of Analysis

The benefits likely exceed the costs for all proposed changes.

Estimated Economic Impact

These regulations establish rules for implementation and oversight of the state's Children's Health Insurance Program (CHIP), known in Virginia as the Family Access to Medical Insurance Security (FAMIS) plan. In the past, the federal government prohibited eligibility of children of state employees for FAMIS under section 2110(b)(2)(B) of the Social Security Act which categorically excluded dependents of state employees in the definition of a "targeted low-income child". However, the federal Patient Protection and Affordable Care Act (PPACA) enacted in 2010 permitted states to extend eligibility in CHIP to children of state employees who are otherwise eligible under FAMIS. The proposed changes remove the current exclusion in regulations and allow low-income state employees, whose children are otherwise eligible for FAMIS, to be enrolled in the program.

According to the Department of Human Resource Management (DHRM), last year, more than 9,600 full-time state employees qualified for the Earned Income Tax Credit, a federal tax subsidy for lower-income working families. Full-time state employees may cover their dependent children through their employee health insurance, but for many families this is not an affordable option. Employees who choose this option face an increase in their insurance premium contributions of approximately $100 to $200 per month. Even with the most comprehensive coverage, employees must also pay co-pays of up to $40 for doctor visits and must pay deductibles. These health care premiums and cost sharing represent a significant reduction in take home pay for many state workers. Some are forced to opt for employee-only coverage, thereby leaving their children with no health insurance; others may struggle to pay for rent or other necessities because of the additional cost for their children's insurance. This reduced access to covered medical services creates increased health risks for the children of Virginia state workers.

In light of this situation, the Governor charged the Secretary of Health and Human Resources to create a plan to provide Virginians with greater access to health care for uninsured citizens. As a result, the Department of Medical Assistance Services (DMAS) developed and promulgated emergency regulations that became effective on January 1, 2015. The proposed changes will permanently implement the emergency regulations currently in effect.

The new rules allow children in families with income between 144% and 200% federal poverty level who are currently not covered under their parent's state-subsidized plan to enroll in FAMIS.[1] Similarly, if the children are currently covered under their parent's state-subsidized plan, they are allowed to drop their current coverage and enroll in FAMIS. This change allows employees of the Commonwealth to be treated the same as other families with access to employer-sponsored health insurance who by current policy may apply for coverage under FAMIS. It is estimated that five percent of the state workforce eligible for insurance will be impacted by this change, with a resulting 5,000 children enrolled in FAMIS.

The economic effects of the proposed changes are different depending on whether the affected children are currently covered under their parent's policy or not. For state employees currently covering their children, a reduction in out-of-pocket expenses for health care is expected. This will result in more disposable income for such families to cover their basic necessities or other discretionary expenses. According to DMAS, most of the new enrollment in FAMIS is expected to be in this category (i.e. children dropping their existing coverage). For state employees who are not currently covering their children, some reduction in out-of-pocket

[1] Children in very low-income families (at or less than 143% federal poverty level) are already eligible for Medicaid; those who are dependents of state employees can, under the current rules, be dropped from state-subsidized coverage and enroll in Medicaid.

expenses may also be expected. Such families may be paying out of pocket expenses for emergency or non-emergency services for their uninsured children. A reduction in out of pocket expenses will also result in more disposable income for such families to cover their basic necessities or other discretionary expenses. The primary disadvantage for affected families is the administrative process of having to apply for FAMIS and/or dropping their child from state sponsored insurance during the open enrollment period.

In addition to the savings to the employees, the primary advantage to the Commonwealth is cost savings associated with the state employee health benefit plan. Employees who currently cover their children on the state health plan could reduce their benefit option to that of an employee only, or employee plus spouse, thus reducing the state's share of premium for family coverage. Since the state employee health plan is self-insured, the actual costs of claims incurred for children covered under the plan would generate additional savings if those children were enrolled in FAMIS instead. According to DHRM, the state health plan's actuary estimates that the reduced cost to the state employee health plan for each child up to age 18 (i.e., the FAMIS age limit) who leaves the plan averages $2,877 per year. The employer's average share (both general and non-general funds) of this amount is $2,418 per year. Similarly, the Commonwealth may also experience a reduction in uncompensated health care costs for currently uninsured children of state employees.

Similar to the benefits to the Commonwealth, businesses that offer health insurance to their employees also stand to see a reduction in their health insurance costs if any of their employees have a spouse employed by the state and can enroll their eligible children in FAMIS.

The proposed changes may also affect health care providers. Currently, state health plan and FAMIS utilizes several provider networks. If coverage under the state health plan is dropped, affected children may start receiving services from a different provider participating in FAMIS. However, there is significant overlap between providers in state health plan networks and providers in FAMIS networks. Thus, affected children may be able to continue to receive their health care from the same providers. Likewise, a reduction in uninsured children of state employees would also reduce utilization of uncompensated health care services provided and increase utilization of providers in FAMIS.

While the Commonwealth will experience savings due to reduced employer contributions toward family coverage on the state health plan or reduced uncompensated care costs, some of these savings will be offset due to the state's share of FAMIS costs for additional children. Based on 250 new children expected to be enrolled in FAMIS in fiscal year (FY) 2015 and 5,000 new children expected in FY 2016 and thereafter, DMAS estimates $255,687 increase in total FAMIS expenditures ($89,490 in general funds, $166,196 in federal funds) in FY 2015, $12.9 million increase in total FAMIS expenditures ($2.3 million in general funds, $10.6 million in federal funds) in FY 2016, and $13.6 million increase in total FAMIS expenditures ($1.6 million in general funds, $12 million in federal funds) in FY 2017.

The average cost per FAMIS child is estimated to be $2,454 in FY 2015 ($859 in general funds due to 65% federal match and $1,595 in federal funds), is estimated to be $2,580 in FY 2016 ($458 in general funds due to 82.25% federal match and $2,122 in federal funds), and is estimated to be $2,724 in FY 2017 ($327 in general funds due to 88% federal match and $2,397 in federal funds). Given that the Commonwealth is expected to save $2,418 per child whose family drops their coverage under the state employee health plan, significant net savings to the Commonwealth are expected.

In general, most of the Commonwealth's net savings will be replaced by federal funds and consequently increase inflow of federal funds coming into Virginia. An increase in federal funds would contribute to the Commonwealth's overall economy.

Businesses and Entities Affected

Under the proposed changes, approximately 250 new children are expected to be enrolled in FAMIS in FY 2015 and 5,000 new children are expected in FY 2016 and thereafter. Most of the new enrollment in FAMIS is expected to be from children dropping their existing coverage.

The proposed changes are also expected to shift utilization of services from providers in state health plan or from providers of other health plans offered to the children of state employees to the providers participating in FAMIS.

The primary affected entity is the Commonwealth of Virginia as it will see a significant reduction in its contributions to the state employee health plan and a relatively small increase in expenditures in FAMIS due to significant federal funding, therefore experiencing significant net savings.

Localities Particularly Affected

The proposed amendment does not disproportionately affect particular localities.

Projected Impact on Employment

The proposed amendments may reduce demand for labor by providers in the state health plan or by providers of other health plans offered to the children of state employees and increase the demand for labor by the providers participating in FAMIS. However, DMAS indicates that there is a significant overlap between the providers in the state health plan and in FAMIS.

Effects on the Use and Value of Private Property

The proposed amendments are unlikely to significantly affect the use and value of private property.

Real Estate Development Costs

The proposed amendments are unlikely to significantly affect real estate development costs.

Small Businesses[2]:

Costs and Other Effects

The proposed amendments may affect health care providers who are currently providing services to affected children and who will be providing services through FAMIS as discussed above. The majority of these providers are believed to be small businesses.

Alternative Method that Minimizes Adverse Impact

There is no known alternative method that would minimize the potential adverse impact on providers who are currently providing services to affected children while accomplishing the same goals.

[2] Pursuant to § 2.2-4007.04 of the Code of Virginia, small business is defined as "a business entity, including its affiliates, that (i) is independently owned and operated and (ii) employs fewer than 500 full-time employees or has gross annual sales of less than $6 million."

Adverse Impacts:

Businesses:

The proposed amendments may have an adverse impact on health care networks currently utilized by the state health plan which are not believed to be small businesses. However, some of these networks also participate in FAMIS and may continue to provide services to majority of the same children affected by the proposed changes.

Localities:

The proposed amendments will not adversely affect localities.

Other Entities:

The proposed amendments will not adversely affect other entities.

Legal Mandates

General: The Department of Planning and Budget has analyzed the economic impact of this proposed regulation in accordance with § 2.2-4007.04 of the Code of Virginia (Code) and Executive Order Number 17 (2014). Code § 2.2-4007.04 requires that such economic impact analyses determine the public benefits and costs of the proposed amendments. Further the report should include but not be limited to: (1) the projected number of businesses or other entities to whom the proposed regulatory action would apply, (2) the identity of any localities and types of businesses or other entities particularly affected, (3) the projected number of persons and employment positions to be affected, (4) the projected costs to affected businesses or entities to implement or comply with the regulation, and (5)the impact on the use and value of private property.

Adverse impacts: Pursuant to Code § 2.2-4007.04(C): In the event this economic impact analysis reveals that the proposed regulation would have an adverse economic impact on businesses or would impose a significant adverse economic impact on a locality, business, or entity particularly affected, the Department of Planning and Budget shall advise the Joint Commission on Administrative Rules, the House Committee on Appropriations, and the Senate Committee on Finance within the 45-day period.

If the proposed regulatory action may have an adverse effect on small businesses, Code § 2.2-4007.04 requires that such economic impact analyses include: (1) an identification and estimate of the number of small businesses subject to the proposed regulation, (2) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the proposed regulation, including the type of professional skills necessary for preparing required reports and other documents, (3) a statement of the probable effect of the proposed regulation on affected small businesses, and (4) a description of any less intrusive or less costly alternative methods of achieving the purpose of the proposed regulation. Additionally, pursuant to Code § 2.2-4007.1, if there is a finding that a proposed regulation may have an adverse impact on small business, the Joint Commission on Administrative Rules shall be notified.

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