Economic Impact Analysis
Virginia Department of Planning and Budget

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1 VAC 55-20 – Commonwealth of Virginia Health Benefits Program
Department of Human Resource Management
January 12, 2010

Summary of the Proposed Amendments to Regulation

The Department of Human Resource Management (Department) proposes to amend the Commonwealth of Virginia Health Benefits Program to allow employees to enroll up to one Other Qualified Adult (OQA) to receive health benefits. The proposed language specifies that "All costs associated with insuring the Other Qualified Adults, and the eligible children of the Other Qualified Adults, are to be borne by the employee."

Result of Analysis

There is insufficient data to accurately compare the magnitude of the benefits versus the costs. Detailed analysis of the benefits and costs can be found in the next section.

Estimated Economic Impact

Under the proposed regulations,

> A state employee who does not already enroll a spouse in the health program may enroll one (Other Qualifying Adult) OQA for benefit coverage if the OQA at the time of proposed enrollment the OQA is at least 19 years of age and has shared primary residence with the employee for the previous 12 continuous months. If the 12 month residency requirement is broken, then a new 12 month continuous residency requirement must be established."

Further, unmarried children of an OQA living with the employee in a parent-child relationship may be covered as well under certain conditions. Unlike the spouse and children of the employee, "All costs associated with insuring the Other Qualified Adults, and the eligible children of the Other Qualified Adults, are to be borne by the employee."

The current and proposed regulations authorize separate pools for establishing contribution rates and for accounting for claims and contributions for state employees and participating local employers. The pools are based on "geographic and demographic characteristics and employment relationships." The current regulations specify that

> Such pools may include but shall not be limited to:
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> 1. Active state employees, including retirees under age 65 and not eligible for Medicare;
> 2. Active local employees (excluding separately rated employees of public school systems);
> 3. Active employees of public school systems;
> 4. Retired state employees over age 65 and retired state employees eligible for Medicare;
> 5. Retired local employees (excluding separately rated employees of public school systems);
> 6. Retired employees of public school systems; and
> 7. Active employees whose employer does not sponsor a health insurance plan.

The Department proposes to add an eighth pool to the list, "Other Qualified Adults and their children who do not also qualify as children of the employee."

Since all costs associated with insuring OQAs and their children who do not also qualify as children of the employee are to be paid by the employee, the contribution rates for insuring these individuals is likely to be much higher than for spouses and children of the employee. For example, the current monthly premium for an employee with spouse's COVA Care (with basic dental) Plus One plan is $101. Adding in the state's contribution the monthly cost is $898.[1] The actual monthly cost charged to the employee for the COVA Care (with basic dental) Plus One when the one is an OQA would be higher than $898 since all costs are to be borne by the employee and the Department has additional implementation and on-going costs.

The Department estimates the initial implementation costs would be $150,000 ($50,000 for systems and payroll changes, $50,000 for actuarial services, $50,000 for communications) and well in excess of $90,000 annually ($50,000 for systems and payroll changes, $30,000 for actuarial services, $10,000 for communications, and an undetermined amount for FICA tax for

[1] Source: Department of Human Resource Management

the after tax premium). These costs would be distributed to the employees who are enrolling in a plan that covers an OQA with or without eligible children.

Since the monthly cost will be quite high, there may not be many employees who elect to pay for insurance covering an OQA. The OQA may be better served through self insurance or other available insurance. Premiums at least nine times as high as the premiums for the existing employee plus one would likely only be appealing to OQAs with very high pre-existing medical costs. If only employees with an associated OQA with very high pre-existing medical costs enroll, the monthly costs per participant will be much higher in order for the insurance to be viable. There is the potential that in order for all costs associated with insuring the OQAs, and the eligible children of the OQAs, to be borne by the employee, the individual premium would be so high that no one would elect to enroll. If this were to happen, the Commonwealth would be left with implementation costs uncovered by employee contributions. In this case, the costs of the proposed amendments would exceed the benefits. If there are individuals who choose to enroll despite the rather high premiums, then the benefits can be said to exceed the costs since all of the Commonwealth's costs would be covered and some individuals will have gained health insurance that they and their associated employee found to be a better option than self insuring or other available insurance. In other words some individuals would be better off while no individuals or entities would be worse off.

Businesses and Entities Affected

The proposed amendments potentially affect employees of the Commonwealth, employees of municipalities and school boards enrolled in the Local Choice Program, and health insurance firms.

Localities Particularly Affected

The proposed amendments do not disproportionately affect particular localities.

Projected Impact on Employment

The proposal amendments are unlikely to significantly affect employment.

Effects on the Use and Value of Private Property

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

Small Businesses: Costs and Other Effects

The proposed amendments are unlikely to significantly affect small businesses.

Small Businesses: Alternative Method that Minimizes Adverse Impact

The proposed amendments are unlikely to significantly affect small businesses.

Real Estate Development Costs

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

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 107 (09). Section 2.2-4007.04 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 2.2-4007.04 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.