



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

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**12 VAC 30-20; 40; 130 – State Method on Cost Effectiveness of Employer-Based group health Plans; General Conditions of Eligibility**  
**Department of Medical Assistance Services**  
February 19, 2009

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

The proposed regulations will make the currently mandatory participation in Health Insurance Premium Payment program optional and extend the eligibility for participation to the family members who are not living in the same household but have coverage under the same group health plan.

### **Result of Analysis**

The benefits likely exceed the costs for all proposed changes.

### **Estimated Economic Impact**

Currently, the participation in Health Insurance Premium Payment (HIPP) program is mandatory and a condition of Medicaid eligibility. All Medicaid applicants who have access to employer sponsored health insurance are required to apply, and if found cost effective, are required to enroll in the HIPP program. Under HIPP, Medicaid pays for employee's share of the health insurance premium and any other cost sharing fees. The proposed regulations will make the currently mandatory participation in HIPP optional.

According to the Department of Medical Assistance Services (DMAS), current regulations necessitate that all eligible HIPP applicants are considered while only a fraction is approved rendering the administration of the program costly. Based on Fiscal Year 2007 data, a total of 2,308 applications were received, 702 were approved, and 1,606 were denied. According the same data, more than one half of the denials occurred either employee had employee-only coverage or it was not open-enrollment period. The proposed optional enrollment feature is

expected to provide some administrative cost savings to Medicaid, to the participant, and to the employers.

Another proposed change will no longer require that the family members must be living in the same household for eligibility to participate in the program. Over the years, DMAS discovered that there are certain situations where a family member may be covered under the same group plan but may not be necessarily living within the same household. For example, a mentally ill adult sibling may be cared for in a non-household setting but may be covered under parent's group insurance. Thus, the proposed change is expected to make the HIPP program accessible to those individuals if they choose to participate. The main effect of additional participation would be increased savings.

However, it is worth noting that if the HIPP program is optional, there may not be any appealing reason for an applicant to apply for participation. Thus, the proposed optional enrollment feature is expected to result in very low enrollment levels. Given the fixed costs associated with keeping any program operational, it may be worthwhile for DMAS to evaluate the cost effectiveness of the HIPP program as an optional program.

## **Businesses and Entities Affected**

The proposed regulations will no longer mandate the application for enrollment in the HIPP program. In fiscal year 2007, approximately 2,300 applications were received.

## **Localities Particularly Affected**

The proposed regulations apply throughout the Commonwealth.

## **Projected Impact on Employment**

The proposed regulations are expected to reduce administrative costs and therefore demand for administrative labor. However, the reduced administrative savings may be directed to other areas. Thus, the net effect of the proposed changes on employment is uncertain.

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

The proposed regulations are not expected to have a significant effect on the use and value of private property. However, reduced administrative costs on employers may contribute to their business' asset values.

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

Most of the employers that may be affected are probably small businesses. The proposed regulations would reduce administrative costs on employers by no longer mandating application for enrollment in HIPP program.

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

The proposed regulations are not expected to result in adverse impact on small businesses.

## **Real Estate Development Costs**

The proposed regulations are not expected to have any effect on 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.H of the Administrative Process Act and Executive Order Number 36 (06). 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 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.