Economic Impact Analysis
Virginia Department of Planning and Budget

18 VAC 30-20 – State Plan Under Title XIX of the Social Security Act Medical Assistance Program; General Provisions
Department of Medical Assistance Services
November 23, 2010

Summary of the Proposed Amendments to Regulation

Pursuant to Chapter 874 of the 2010 Acts of Assembly Item 296 L., the proposed regulations will establish an additional premium assistance option for children enrolled in Medicaid.

Result of Analysis

The benefits likely exceed the costs for all proposed changes.

Estimated Economic Impact

The federal Children's Health Insurance Program Reauthorization Act of 2009 authorized the Centers for Medicare and Medicaid Services to award annual performance bonuses through federal fiscal year (FFY) 2013 to states that implement certain enrollment and retention provisions in their children's Medicaid and Children's Health Insurance Program (CHIP) programs and exceed enrollment goals in their children's Medicaid program. Consequently, the 2010 General Assembly directed the Department of Medical Assistance Services (DMAS) to develop enrollment and retention provisions that would lead to an award of a performance bonus.

In order to get the bonus, a state must implement at least five of the eight program features that simplify the application and enrollment process. The goal is to encourage and assist states in reaching and enrolling more uninsured children who are eligible for Medicaid. The eight program features are: 1) Liberalization of asset or resource requirements, 2) Elimination of in-person interviews, 3) The same application and renewal process for Medicaid and CHIP, 4) Automatic/Administrative renewals, 5) Premium assistance, 6) Continuous eligibility, 7) Presumptive eligibility for children, and 8) Express lane eligibility.

During the last year, Virginia met the first three of the eight criteria above. Also, the fourth criterion implemented administratively October 1, 2010. DMAS proposes to add the fifth criteria, premium assistance, through these regulations to qualify for the bonus.

Virginia Medicaid currently operates an optional premium assistance program known as the Health Insurance Premium Payment Program (HIPP). Under HIPP, Medicaid pays for the employee's share of the health insurance premium and any other cost sharing fees if participation is found to be cost effective for Medicaid. Participation is considered cost effective if the premium assistance subsidy is likely to be less than the expected total expenditures that will be spent on that person's Medicaid coverage. The current HIPP program does not restrict enrollment to children under age 19 and opens enrollment up to most Medicaid eligible individuals covered under employer-sponsored health insurance.

The proposed new premium assistance program is different than the current HIPP program in three main ways. First, the new program provides health insurance premium assistance to children under age 19 while the current program does not restrict enrollment to children under age 19. Second, the new program requires Medicaid to pay cost sharing for the ineligible parent who holds the insurance as well as for enrolled children. Third, the proposed program does not require a cost effectiveness calculation for each participant as is currently required in the HIPP program as long as the employer covers at least 40% of the health insurance premium.

DMAS estimates that 1,186 families will enroll in the proposed premium assistance program. The new program enrollees are expected to come from the current HIPP program and from the Medicaid program. Some of the families in the current HIPP program who have a child under age 19 are expected to apply for the new program because of the available cost sharing for the ineligible parents or because Medicaid will no longer require the cost effectiveness determination which may be administratively burdensome. Also, some of the families in the Medicaid program whose employer pays at least 40% of the health insurance premium and who did not pass the cost effectiveness test for the current program are expected to apply for the new program as there is no cost effectiveness test required.

It is estimated that DMAS will pay $585,107 in FFY 2011, $600,057 in FFY 2012, and $600,057 in FFY 2013 for cost sharing[1], one time system changes in the first year, and two full time staff positions. Approximately one half of these amounts will be paid by the federal government and the remaining half will be paid by the Commonwealth.

The main benefit of the proposed program is the expected bonus. The projected performance bonus for FFY 2011 is $32.4 million, for FFY 2012 it is $43.6 million, and FFY 2013 it is $59.2 million. Based on the 1,186 anticipated enrollment level, the expected bonus per enrollee varies from $27,393 to $49,959 which is significantly greater than $799 expected cost sharing per enrollee. Also, the influx of the federal funds coming into the Commonwealth is expected to have expansionary economic effects on Virginia’s economy.

In addition, a reduction in cost sharing expenditures in the current HIPP program would be expected as some individuals leave the current program to join the new program. Also, a reduction in administrative expenses may be expected as the new program does not require the time consuming administrative cost effectiveness determination. Furthermore, a reduction in Medicaid expenditures would be expected as some individuals who were ineligible for HIPP become eligible for premium assistance under the new program.[2] All of these anticipated fiscal effects would offset the additional cost sharing, system changes, and staff costs discussed above.

Finally, the proposed premium assistance program is expected to benefit the enrollees by paying for their and their ineligible parents’ health insurance premiums. Since this is a completely optional program, applicants reveal that the benefits to them are greater than the costs by choosing to participate in the program.

Businesses and Entities Affected

The number of individuals anticipated to enroll in the proposed premium assistance program is 1,186.

Localities Particularly Affected

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

[1] According to DMAS, $799 per year is the national average for cost sharing.
[2] Even though no actual cost effectiveness determination is required, employer paying at least 40% of the health insurance premium is expected to result in cost effectiveness in majority of the cases.

Projected Impact on Employment

Implementation of the new program is estimated to require two full time staff positions and expected to increase in the demand for labor. Also, the expansionary effects of the influx of federal funds are expected to increase demand for labor. On the other hand, expected reduction in the administratively burdensome cost effectiveness determinations would reduce the need for some staff time and reduce the demand for labor, offsetting some of the expected increase in labor demand.

Effects on the Use and Value of Private Property

The proposed regulations are not expected to have an effect on the use and value of private property.

Small Businesses: Costs and Other Effects

The proposed regulations do not have a direct effect on small businesses.

Small Businesses: Alternative Method that Minimizes Adverse Impact

There is no anticipated adverse effect on small businesses.

Real Estate Development Costs

No effect 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.H of the Administrative Process Act and Executive Order Number 107 (09). 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.