



JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION
Fiscal Impact Review
2007 Session

Bill Number: HB 1953 as Introduced
Review Requested By: Delegate Morgan

JLARC staff concur with the estimates derived by Department of Medical Assistance Services (DMAS) staff in the fiscal impact statement. DMAS staff estimated that the impact of HB 1953 would be \$11,459,000 in total funds (\$5,729,500 general fund) in FY 2008, and \$11,567,500 in total funds (\$5,783,750 general fund) in FY 2009. However, JLARC staff note that the estimates in the fiscal impact statement are based on assumptions that may be subject to a wide range of error. Further, the estimates may understate the fiscal impacts due to potentially expanded Medicaid eligibility: some individuals who had been ineligible for Medicaid under the current disregard of \$3,500 may now be eligible under the proposed disregard of \$7,000.

An explanation of the JLARC staff review is included on the following pages.

Authorized for Release:

Philip A. Leone
Director

Background

Bill Summary:

The bill amends the *Code of Virginia* relating to the State Plan for Medical Assistance. The bill requires that, in determining eligibility for Medicaid, the Department of Medical Assistance Services (DMAS) disregards funds set aside to meet burial expenses up to a maximum of \$7,000 for an individual and \$14,000 per couple. This bill increases the current limit from \$3,500 to \$7,000 for each individual.

The bill also authorizes an incorporated association that sells burial association group life certificates to serve as the trustee for a trust established to fund a pre-need funeral contract. The association's principal purpose must be to assist its members in financial planning for their funerals and burials and obtaining insurance for the payment for funeral and burial expenses.

Discussion of Fiscal Implications:

A comment written on the Fiscal Impact Review Request Form states: "Please consider that while the average traditional funeral costs about \$6,500 today, many are now using cremation which is about \$1,800."

A distinction between costs associated with Medicaid eligibility and actual burial or cremation costs must be made. The fiscal impacts from this bill are from individual savings that are sheltered when determining eligibility for Medicaid, not actual burial or cremation costs. The amount of money that an individual claims (at the time of determining Medicaid eligibility) has been set aside for burial expenses and thereby sheltered is what drives the fiscal impact estimate. Data on whether that money eventually is actually spent on burial/cremation expenses is not currently collected by DMAS, and would not directly affect the fiscal impacts estimated for this bill, which addresses primarily conditions defining Medicaid eligibility.

Overall, JLARC staff could not derive better quantitative estimates than those in the fiscal impact statement. However, JLARC staff note that the estimates in the fiscal impact statement are based on assumptions that may be subject to a wide range of error. Further, the estimates may understate the fiscal impacts due to potentially expanded Medicaid eligibility: some individuals who had been ineligible for Medicaid under the current disregard of \$3,500 may now be eligible under the new disregard of \$7,000. These individuals are not taken into account in the estimates in the current fiscal impact statement.

Assumptions Subject to Wide Variation. Two assumptions used in making the fiscal impact estimates seem speculative, but there appears to be no better information that could be the basis for a substitute for them. The assumptions dealt with (1) how many newly eligible Medicaid recipients made use of the burial expenses disregard and (2) how much money on average each new recipient sheltered (money that would otherwise be spent out-of-pocket on medical needs rather than through Medicaid funds).

The first assumption is that 80 percent of new Medicaid recipients who are eligible for the burial expense disregard would make use of it. The fiscal impact estimate is highly sensitive to this assumption. For every one percent change in the assumed participation rate, the fiscal impact estimates would change 1.25 percent (all other things equal). DMAS staff identified 4,060 new Medicaid recipients over the age of 50 who would have been eligible for the increased burial expenses disregard during FY 2006. Based on the opinions of eligibility workers in the field, DMAS staff estimated that

approximately 80 percent (3,248 Medicaid recipients) would make use of the burial expenses disregard in FY 2006. While 80 percent seems a somewhat high percentage of Medicaid recipients to have the foresight to set aside savings for their burial, there does not appear to be any better information on which to base an alternative assumption. The high participation rate could imply that many new Medicaid recipients are inclined to take advantage of an opportunity to shelter their money when eligibility is being determined.

The second assumption is that each new Medicaid recipient on average would shelter an additional \$3,500 under the higher burial expense disregard. DMAS staff do not have data on individuals' actual savings set aside for burial expenses, so an assumption must be made regarding how much money individual Medicaid recipients on average would shelter under the new disregard. DMAS staff note in the fiscal impact statement that the additional amount individuals may shelter under the new disregard may range from \$0 to \$7,000. DMAS staff chose to assume the midpoint of that range, \$3,500, which is the maximum amount for an individual, but half of the maximum amount for an individual and his or her spouse.

In the absence of further information, this assumption appears reasonable, although the estimated fiscal impact is highly sensitive to the average that is assumed. For every \$1,000 difference in the assumed average, the fiscal impact estimate would change by \$3,274,000 to \$3,446,000 (or 29 percent) per year. It is possible that new Medicaid recipients would take full advantage of an opportunity to shelter the maximum amount they could through the disregard, so the average could be higher than \$3,500. On the other hand, it is possible that if more new Medicaid recipients are choosing cremation over traditional burial, they could be setting aside less money for funeral expenses, so the average would be less than \$3,500. At this point, data are not readily available to determine how well these possible scenarios match reality.

Potentially Expanded Medicaid Eligibility. The fiscal impact statement focuses on the group of new Medicaid recipients who are currently eligible and making use of the current burial expense disregard. It is possible that there is another potential group of new Medicaid recipients, who would not be eligible under the current burial expense disregard of \$3,500 per individual, but who would be eligible under the higher disregard level of \$7,000 per individual. Data are not readily available to estimate the size of this group. But if there is some positive number of new Medicaid recipients in this group, the fiscal impact estimates could be understated, holding all other things equal.

Budget Amendment Necessary:

Yes.

Agencies Affected

DMAS

Date Released, Prepared By: 01/24/2007; Greg Rest