JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION
Fiscal Impact Review
2011 Session

Bill Number: SB 978 as Introduced
Review Requested By: Senator Colgan

JLARC Staff Fiscal Estimates

JLARC staff concur with the estimates in the fiscal impact statement (FIS) prepared for SB 978. SB 978 would increase the income eligibility level for the Family Access to Medical Insurance Security (FAMIS) program from 200 percent to 225 percent of the federal poverty line starting in fiscal year 2012. Enactment is contingent upon adequate funding being included in the State budget approved by the 2011 General Assembly and the Governor. Implementing SB 978 is estimated to cost a total of $11.4 million in FY 2012, of which $4.0 million would be paid with State general funds and the rest with federal dollars.

JLARC staff find that the estimates presented in this FIS appear to be based on the best available information and are therefore reasonable. While the estimate provided in this 2011 FIS is substantially higher than a 2010 estimate calculated for an identical bill, it appears more robust due to refinements in methodology and assumptions. In particular, the estimated number of additional children expected to enroll in FAMIS each year under SB 978 is based on the actual number of children who were denied coverage because their family's income exceeded the current threshold of 200 percent of the federal poverty line (FPL) but fell within the range targeted by SB 978 (201 to 225 percent of the FPL.) Because it reflects the actual experience of Virginia families who were assessed for eligibility using program rules and processes, this approach appears to be superior to the one used in 2010, which relied on self-reported survey responses that may not be consistently accurate or directly applicable to the impact of this bill. Still, it should be noted that the estimated size of the total child population which could be impacted by SB 978 in the long run may be overstated, although this figure has no bearing on the cost estimates in this FIS.

Other assumptions used to estimate the potential fiscal impact of SB 978 also appear reasonable because they are based on the most recent experience and trends in FAMIS expenditures and enrollment.

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

Authorized for Release:

Glen S. Tittermary
Director

JLARC offers Fiscal Impact Reviews in accordance with Item 30D of Chapter 874 (2010 Acts of Assembly). JLARC Fiscal Impact Reviews do not comment on the merits of the bill under review.

Bill Summary: SB 978 would increase the income eligibility level for the Family Access to Medical Insurance Security (FAMIS) program from 200 percent to 225 percent of the federal poverty line (FPL) starting in fiscal year (FY) 2012. As of 2011, 200 percent of the FPL corresponds to an annual income of $44,700 for a family of four, while 225 percent represents $50,288. A clause precludes the bill from becoming effective unless funding has been designated for its implementation in the budget adopted during the 2011 session of the General Assembly and signed into law by the Governor.

Discussion of Fiscal Implications: The fiscal impact statement (FIS) for SB 978 estimates the cost of implementing the bill as follows:

Fiscal Year	General Fund Costs	Federal Costs	Total Costs
FY 2012	$3,996,668	$7,440,384	$11,437,052
FY 2013	10,272,463	19,077,432	29,349,896
FY 2014	12,302,192	22,846,928	35,149,120
FY 2015	7,059,785	32,713,652	39,773,436
FY 2016	5,401,310	39,609,610	45,010,920
FY 2017	6,113,167	44,829,888	50,943,055

According to the FIS, expanding FAMIS income eligibility would cost approximately $11.4 million in FY 2012, $4.0 million (35 percent) of which would be paid from State general funds and the rest by matching federal funds. Currently, FAMIS expenditures are reimbursed by the federal government at a rate of 65 percent, which is expected to increase to 88 percent between 2015 and 2019. It should be noted that federal funding for programs like FAMIS could change as a result of federal health reform.

As shown in the table below, the estimate contained in this FIS is substantially higher than in the one issued in 2010 for SB 266, whose language was identical to SB 978. Based on a review of the differences in methodology and assumptions used in the 2010 and 2011 FIS, JLARC staff conclude that the fiscal estimate provided in 2011 for SB 978 is the most robust. The estimated fiscal impact of SB 978 appears to be higher primarily because a greater number of children are expected to enroll in the program, according to a new and more refined methodology used by the Department of Medical Assistance Services (DMAS). Other cost driver assumptions increased somewhat between 2010 and 2011 to reflect more recent trends in the growth rate of enrollment and cost of care, while the overhead cost assumptions remained similar in both years.

	Comparison of Estimated Total Implementation Costs (including State and federal funds, in $ millions)		
Fiscal Year	**2011 SB 978**	**2010 SB 266**	**Difference 2011-2010**
FY 2011	n/a	$7.7	n/a
FY 2012	$11.4	8.4	+$3.0
FY 2013	29.3	9.1	+20.3
FY 2014	35.1	9.8	+25.3
FY 2015	39.8	10.6	+29.2
FY 2016	45.0	$11.5	+$33.6
FY 2017	$50.9	n/a	n/a

Children Expected to Enroll in FAMIS Under SB 978

The costs associated with raising the FAMIS income eligibility level from 200 to 225 percent of the FPL are driven primarily by the estimated increase in enrollment and growth projections over time. The methodology used by DMAS changed in 2011 and resulted in higher enrollment projections compared to 2010, as shown below. Differences in enrollment appear to explain most of the discrepancy between the fiscal estimates prepared in 2010 and 2011.

	Expected Annual Increase in Enrollment (Compared to Status Quo)		
Fiscal Year	**2011 SB 978**	**2010 SB 266**	**Difference 2011-2010**
FY 2011	n/a	6,500	n/a
FY 2012	8,531	6,825	+1,706
FY 2013	12,311	7,166	+5,145
FY 2014	13,150	7,525	+5,625
FY 2015	14,046	7,901	+6,145
FY 2016	15,003	8,296	+6,707
FY 2017	16,025	n/a	n/a

(1) <u>SB 978 FIS (2011)</u>

In the 2011 FIS for SB 978, the estimated enrollment increase is based on the actual number of children who were denied FAMIS coverage because their family's income exceeded the current threshold of 200 percent of the FPL, but fell within the range targeted by SB 978 (201 to 225 percent of the FPL.) Approximately 7,000 such children were denied coverage in FY 2009. These data appear to form a robust basis for estimating the impact of SB 978 on FAMIS enrollment because they reflect the actual experience of Virginia families who were assessed for eligibility using program rules and processes. The actual number of enrollees could exceed the FIS estimate because some families who would become eligible under SB 978 may not have previously applied and been denied coverage. However, there is no accurate information available to quantify the size of this group.

The FIS assumes that every year, roughly the same number of children would be denied under the status quo and would therefore become eligible for coverage if SB 978 were enacted. Because new families apply for coverage each year, it seems reasonable to believe that a similar trend in denials will recur, at least until all eligible uninsured children in that income bracket are covered.

The FIS also assumes that the number of children who could become enrolled due to SB 978 will increase at the same pace as the actual FAMIS enrollment growth rate of 6.8 percent per year (based on average annual growth between FY 2006 and FY 2010). This assumption also appears to be reasonable because it is based on actual program experience. Further, recent trends suggest that FAMIS enrollment is continuing to grow rapidly in FY 2011, presumably as a result of the latest recession. Assuming an annual growth rate of 6.8 percent, the 7,000 denials in FY 2009 would grow to 8,531 children who could gain coverage in FY 2012 under SB 978. The number of children expected to enroll in future years also assumes a 6.8 percent annual growth rate, while some children enrolled in earlier years are expected to start exiting the program at a rate of six to ten percent per month (similar to historical exit trends.)

Lastly, the FIS indicates that in the long-run, up to 24,000 additional children could be covered by FAMIS if SB 978 were enacted. This large number has been questioned and could in fact be somewhat overstated. However, it is not used in any of the calculations that support this FIS and its accuracy consequently does not impact projected costs. The estimate is based on the distribution of currently enrolled children across income brackets. On average, for every 5 percentage point increase in income between 133 and 200 percent of the federal poverty line, an additional 4,100 children are enrolled in FAMIS. Using this logic, raising the income eligibility threshold by 25 percentage points (from 200 percent to 225 percent of the FPL) could ultimately increase enrollment by approximately 20,500 children based on the FY 2010 FAMIS population (increasing to 24,000 by FY 2012 assuming an annual growth rate of 6.8 percent.)

This rationale assumes that (a) the number of Virginia children in each income bracket is exactly the same between 133 and 225 percent of the FPL, and (b) the same proportion of children need FAMIS coverage whether their families earn 133 or 225 percent of the FPL. However, some data suggest that this may not be the case. For example, a preliminary Urban Institute analysis of data from the American Community Survey indicates that there are approximately 3,000 (four percent) fewer children in families earning between 201 and 225 percent of the FPL than in families earning between 175 and 200 percent of the FPL. In addition, the number of children who are uninsured and would most need FAMIS coverage appears to decrease as their family's income increases, in large part due to the greater availability of private insurance coverage. Still, survey results may not be entirely comparable to other data sources or as relevant to the population targeted by SB 978. For example, the income brackets reported may be based on different definitions of income, and survey respondents may not accurately report their income, either purposefully or mistakenly. In the absence of a definitive answer and because it is not utilized in the fiscal estimate of SB 978, JLARC staff suggest disregarding this figure.

(2) <u>SB 266 FIS (2010)</u>

In the 2010 FIS for SB 266, the projected increase in FAMIS enrollment was based on the estimated number of uninsured children in families earning between 201 percent and 225 percent of the federal poverty line. These figures were derived from data captured in the American Community Survey and refined by researchers at the Urban Institute. The American Community Survey is administered continuously by the U.S. Census Bureau and collects demographic, socioeconomic, and housing information from a sample of the U.S. population. Based on these data, it was estimated that 7,000 children in that income bracket were uninsured, 93 percent of whom (6,500) would seek FAMIS coverage in the year following enactment of SB 266.

It was also assumed that these uninsured children comprised the entire population of children who could be impacted by SB 266. As a result, there would be a one-time large increase in enrollment as previously uninsured children became covered and only small increases in subsequent years, due to general factors such as population increases and economic cycles. The difference between the populations estimated in SB 978 (2011) and SB 266 (2010) is the primary driver of the divergent fiscal impact estimates.

While the approach used to estimate the impact of SB 266 on FAMIS enrollment is logical, it appears inferior to the methodology used in the 2011 FIS for SB 978. In particular, the SB 266 enrollment estimate is based on self-reported survey responses that may not be consistently accurate or comparable to what would occur if higher FAMIS income thresholds were adopted. For example, the types of income included in the survey are somewhat different from the income sources used in the FAMIS eligibility determination process. In addition, the survey reports annual income, whereas FAMIS eligibility is based on monthly income that can vary over the course of the year.

Survey respondents may also provide inaccurate income information because they cannot accurately recall their family income or because they are uncomfortable with their income level. Due to these limitations, children whose family income would be considered between 201 and 225 percent of the FPL during the FAMIS eligibility determination process could be recorded in different income categories in survey results.

The FIS for SB 266 assumed an average annual enrollment growth rate of five percent compared to 6.8 percent in the SB 978 FIS. Reducing the assumed growth rate in SB 978 to five percent would decrease annual costs by approximately 5 percent in FY 2012, compounding to a 12 percent decrease in costs by FY 2017. However, the growth rate assumed in SB 978 reflects more current data on enrollment growth and appears more relevant for future projections.

Estimated Cost of Medical Services Under SB 978

Based on recent cost experience, the average annual cost of medical care estimated in the SB 978 FIS is $1,291 per child enrolled at any point in FY 2012, which is expected to grow by 6.1 percent annually. In 2010, the FIS for SB 266 assumed a lower annual cost of $1,124 per child during FY 2011, which was expected to grow by only 3.2 percent annually based on past trends. If the lower assumptions used in the FIS for SB 266 were used in the more recent FIS for SB 978, projected costs would be approximately 13 percent lower in FY 2012, growing to 24 percent lower by FY 2017. However, as with enrollment projections, the assumptions used in the SB 978 FIS are more current and therefore more applicable to future projections.

Estimated Administrative Costs Under SB 978

The FIS for SB 978 and SB 266 used similar assumptions to estimate the increase in administrative costs needed to implement both bills. Additional administrative costs would be incurred in three areas: (1) a one-time, upfront cost of $63,000 to update information systems with the new income eligibility threshold, (2) a recurring annual cost of $125,000 due to increased calls made to the DMAS processing unit, and (3) an increase of $4.08 per child per month to accommodate higher eligibility determination and processing volume. Although both fiscal impact statements use similar cost assumptions, the total administrative costs included in the SB 978 FIS are higher because a larger number of children are expected to enroll, thereby increasing the cost of conducting eligibility determination and processing.

Budget Amendment Necessary: None in addition to the FIS prepared for this bill.

Agencies Affected: Departments of Medical Assistance Services and Social Services.

Date Released, Prepared By: 2/9/2011, Nathalie Molliet-Ribet.