Department of Planning and Budget
2013 Fiscal Impact Statement

1. **Bill Number:** SB 1367

House of Origin	☒	Introduced	☐	Substitute	☐	Engrossed
Second House	☐	In Committee	☐	Substitute	☐	Enrolled

2. **Patron:** Barker

3. **Committee:** Finance

4. **Title:** Health insurance; local government employees eligible to participate in state employee plan

5. **Summary:** The bill gives local governments the option of having all their employees and retirees, as well as their dependents, eligible to participate in the state employee health insurance plan in lieu of the current state-administered local health insurance plan. The local government shall be responsible for whatever portion of the cost of such insurance that is not paid by the employee, except any portion that the General Assembly elects to pay.

6. **Budget Amendment Necessary**: Yes. See Item 8.

7. **Fiscal Impact Estimates:** Indeterminate. See Item 8.

8. **Fiscal Implications:** The Department of Human Resource Management (DHRM) expects that this bill will potentially have a very large impact on the state health plan. However, the fiscal impact cannot be determined without an actuarial study. DHRM's actuaries have been requested to do a study of allowing school systems to join the plan, but it will take a substantial amount of time to complete due to the data collection requirements and time to complete the analysis. The bill does provide that the participating localities shall bear any increased cost to the system that is not supported by the local employee, so there is no anticipated cost to the state unless the General Assembly decides to use its option to support some of the cost.

   The bill does not address the issue of adverse selection against the state health plan, which could be solved by indicating that the election to participate in the health plan shall be irrevocable and that any participating employer shall not participate in any other health insurance program. In addition, the complexity of this bill makes it difficult to implement by July 1, 2013, (a one year delay would make the rollout more effective). Finally, an actuarial report is recommended by DHRM before permitting local government entities in the state employee health plan so that the full impact is understood prior to such a significant change to the state health plan.

Impact on Children's Health Insurance Coverage

This bill would allow local government agencies to cover their employees, retirees and their dependents under the health insurance plan for state employees rather than the state-administered health plan for local governments. The dependent children of these local agency employees, retirees and their dependants who are eligible to enroll in the state employee health plan, not just the Local Choice plan, would then be ineligible for coverage under the Family Access to Medicaid Insurance Security (FAMIS) program. Federal law, specifically §2110(b) of the Social Security Act, excludes any "child who is a member of a family that is eligible for health benefits coverage under a State health benefits plan on the basis of a family member's employment with a public agency in the state." Therefore, this bill makes every local government eligible to join the state health plan, regardless of whether the local government joins or not. The resulting impact of this bill would make any dependents of local government employees that are currently enrolled in FAMIS no longer eligible for the program. This would have an impact by reducing expenditures of the FAMIS program.

The Current Population Survey (CPS) data from the U.S. Bureau of Labor Statistics indicates that in Virginia there are 287,535 local government full-time employees in 2011, with 179,557 of them elementary and secondary educators. Using their average incomes, the Department of Medical Assistance Services (DMAS) estimated that 46 percent, or 132,574, of these individuals have incomes at or below $46,100 or 200 percent of the federal poverty level for a family of four. Based on available census data, DMAS has assumed 30 percent have children between 0 and 18, 25 percent of them are the only income in the family, and 15 percent of those have children in the FAMIS program. By these assumptions approximately 1,511 FAMIS children could lose eligibility with the legislation.

With children losing eligibility for FAMIS, DMAS expects some reduction in expenditures. The reduction is assumed to be realized gradually throughout the first year. By the second year, all ineligible FAMIS children will have left the program. The population is assumed to grow by two percent a year, and costs per member are assumed to grow by five percent per year. The initial cost per month per FAMIS enrollee is calculated to be $175. By lowering enrollment, the legislation is expected to reduce expenditures $1,523,458 ($533,210 GF) in FY 2014 and $3,520,081 ($1,232,028 GF) in FY 2015. The federal share of expenditures in the FAMIS program increases in FY 2016 (as a result of the Affordable Care Act increasing the federal share from 65 to 88 percent), lowering the GF share of the reductions. The following are the projected FAMIS savings by year:

	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
General Fund	($533,210)	($1,232,028)	($670,038)	($485,770)	($520,929)	($558,633)
Federal	($990,248)	($2,288,052)	($3,104,823)	($3,562,311)	($3,820,147)	($4,096,645)
Total	**($1,523,458)**	**($3,520,080)**	**($3,774,861)**	**($4,048,081)**	**($4,341,076)**	**($4,655,278)**

The savings in the FAMIS program is a conservative estimate that may be partially or entirely offset by higher costs to the state health plan. However, based on the lack of any fiscal impact estimate on the state health plan, the net fiscal impact of this bill is indeterminate.

9. **Specific Agency or Political Subdivisions Affected:** Department of Human Resource Management, Department of Medical Assistance Services, and local governments.

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** The Governor proposed an executive amendment to the introduced budget for the 2013 Session proposing an actuarial study to determine the feasibility of including teachers in local school districts in the state employee health plan, which could be amended to include local governments.

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