

DEPARTMENT OF HUMAN RESOURCES INITIAL STATEMENT OF REASONS

I. Purpose and Rationale for the Proposed Regulatory Changes

The proposed regulation would implement the requirement in Government Code section 22843.1 requiring state agencies to re-verify, at least once every three years, that the family members¹ of state employees and annuitants enrolled for state-sponsored health benefits remain eligible. The regulation clarifies the specific documentation to re-verify dependent eligibility for health benefits. It also specifies certain document retention requirements and procedures for terminating health coverage for ineligible family members.

Government Code section 19815.4, subdivision (d) authorizes the California Department of Human Resources (CalHR) to promulgate regulations pertaining to state employee salaries, hours, and other personnel-related matters. In particular, Government Code section 22843.1 gives CalHR the authority to establish standards for verifying that the family members of state employees and annuitants are eligible for state-sponsored health benefits.

Ineligible dependents pose a significant burden on state resources each year in the form of added health care expenses and employer-paid contributions. Between 2013 and 2015, CalPERS conducted a dependent eligibility verification (DEV) audit to ensure that only eligible dependents were enrolled in CalPERS health plans. As a result of the DEV project, CalPERS found and dis-enrolled 8,379 ineligible health dependents of state subscribers (active employees and retirees),² saving over \$60 million in employer health premium contributions, and claim costs..

Experience and the CalPERS DEV project substantiate that some state subscribers are not reporting consistently or timely dependent changes to their employing offices, nor are human resources staff consistently verifying appropriate documents before enrolling dependents.

The purpose of the proposed regulation is to implement the public policies set forth in Government Code section 22843.1, and provide state agencies with the necessary standards and authority to re-verify dependent eligibility. The regulation will provide the standards for state departments to:

- Re-verify the continuing eligibility of dependents enrolled for health benefits
- Educate employees on the definition of an eligible dependent
- Remove ineligible dependents from coverage
- Keep costs in check by reducing future claims and employer contribution costs

A standardized re-verification process adds integrity to the state health benefit program, ensuring that ineligible dependents do not accumulate. Removing ineligible dependents also reduces the cost of health premiums for state employees.

With consideration to subdivision (i) of the regulatory text, requiring Human Resource (HR) offices to review re-verification documents within 30 calendar days of receipt is to minimize potential account receivables to the employee, which would also be additional work for the HR office. If employees provide re-verification documents for dis-enrolled, eligible dependents after receiving the final CalPERS notice during their birth month but before the re-verification due date, HR offices may rescind the dependent deletion. Employees may incur an accounts receivable for the premium for the month after their birth month.

Requiring the 30-day review would also minimize the gap in coverage for eligible dependents. If employees provide re-verification documents for dis-enrolled, eligible dependents after the re-verification due date, HR offices re-enroll the family members prospectively. This will result in a gap of benefit coverage.

II. Technical, Theoretical, and/or Empirical Study, Reports, or Documents

In deciding to adopt the proposed regulation, CalHR relied on the results of the CalPERS DEV project, which as noted above, removed 8,379 ineligible health dependents of state subscribers, resulting in savings of over \$60 million.

III. Economic Impact Assessment/Analysis

Purpose

The regulation will assist state departments with reviewing eligibility and removing ineligible dependents from health benefits, resulting in minimal savings to the state budget. Superfluous spending on ineligible dependents would be reduced by implementing standardized dependent re-verification. Additional staffing and/or training are necessary to absorb this new workload. However, the costs associated with training and hiring additional staff will be offset by the savings realized from dis-enrolling ineligible dependents.

Creation or Elimination of Jobs Within the State of California

The regulation is an internal governmental effort to lessen spending on benefits for ineligible dependents of state employees. It does not extend to any program that affects the general public. Therefore, the proposed regulations will not affect the creation or elimination of jobs within the State of California.

The Creation of New Business or the Elimination of Existing Businesses Within the State of California

The regulation is an internal governmental effort to lessen spending on benefits for ineligible dependents of state employees. CalHR has determined that the regulation would not affect the interest of any private enterprise currently, or possibly interested in, doing business in the State of California. Therefore, the proposed regulations will not affect the creation of New Business or eliminate existing business within the State of California.

The Expansion of Businesses Currently Doing Business Within the State of California

The regulation is an internal governmental effort to lessen spending on benefits for ineligible dependents of state employees. It would not affect any program that regulates private business in the state of California. CalHR has determined that the regulation would not affect the Expansion of Businesses Currently Doing Business Within the State of California. Therefore, these regulations would not affect the expansion of businesses currently doing business within the State of California.

Benefits of the Regulations to the Health and Welfare of California Residents, Worker Safety, and the State's Environment

The regulation is an internal governmental effort to lessen spending on benefits for ineligible dependents of state employees. Therefore, CalHR has determined that the regulations would positively affect the health and welfare of California residents by ensuring public funds are spent on benefits only for eligible dependents of state employees.

IV. Evidence Supporting Finding of No Significant Statewide Adverse Economic Impact Directly Affecting Business

CalHR has found no evidence that the regulation would impose a significant statewide adverse economic impact affecting business. Removing ineligible dependents from state sponsored health benefits will generate minimal budgetary savings and will only affect benefits pertaining to state employees.

V. Reasonable Alternatives to the Regulation and the Agency's Reasons for Rejecting those Alternatives

No other alternatives were presented to or considered by CalHR.