



CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 26, 2009

S. 275
Children's Health Insurance Program Reauthorization Act of 2009

*As reported by the Senate Committee on Finance
on January 16, 2009*

SUMMARY

S. 275 would authorize the Children's Health Insurance Program (CHIP) through fiscal year 2013 and increase federal funding for the program above current levels. The program provides health insurance to targeted children of low-income families. The bill would provide performance bonus payments to states to cover enrollment costs resulting from specified enrollment and retention efforts. S. 275 would establish a child enrollment contingency fund to cover state CHIP expenditures beyond the amount allotted in statute for the 2009-2013 reauthorization period. The bill also would add an additional state option to use CHIP funding to provide a premium assistance subsidy for children enrolled in a qualified health insurance plan, provide additional funding for outreach grants, and improve access to dental benefits and mental health benefits in CHIP plans.

S. 275 includes other provisions related to the Medicaid program and CHIP. Those provisions include ones that would allow states the authority to waive the restriction on providing Medicaid and CHIP coverage to certain legal immigrants before five years of residency, provide an alternative process for states to use in determining citizenship when determining Medicaid eligibility, and provide grants for increased outreach and enrollment activities. Finally, the bill would increase the federal excise tax on tobacco products.

In total, CBO and the Joint Committee on Taxation (JCT) estimate that enacting S. 275 would reduce federal budget deficits by \$1.0 billion over the 2009-2019 period, reflecting increases in federal spending totaling \$73.8 billion and increases in revenues of \$74.8 billion over that period. About \$1.7 billion of the estimated revenue increase would stem from additional Social Security payroll taxes, which are classified as "off-budget."

The “on-budget” effects on direct spending and revenues (that is, excluding off-budget effects) over the 2009-2013 and 2009-2018 periods are relevant for enforcing the Senate’s pay-as-you-go rule under the current budget resolution. CBO estimates that enacting S. 275 would increase direct spending by approximately \$32.8 billion over the 2009-2013 period, and by \$66.1 billion over the 2009-2018 period. (All direct spending effects of S. 275 are on-budget.) In addition, JCT and CBO estimate that the increase in the excise tax on tobacco products along with other additional revenue associated with provisions in S. 275 would increase on-budget revenues by \$32.8 billion over the 2009-2013 period and \$66.6 billion over the 2009-2018 period. On balance, CBO estimates that enacting the legislation would reduce on-budget deficits by less than \$50 million over the 2009-2013 period and by \$0.5 billion over the 2009-2018 period.

Pursuant to Section 311 of S. Con. Res. 70, CBO estimates that S. 275 would cause a net increase in deficits in excess of \$5 billion in at least one of the four 10-year periods beginning after fiscal year 2018.

CBO has reviewed the non-tax provisions of the bill (Title I through Title VI, excluding section 311(a)) and determined that they contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO has determined that the non-tax provisions of the bill would impose private-sector mandates on group health plans and issuers of group health insurance. In aggregate, the costs of the mandates on private entities in the non-tax provisions of the bill would not exceed the annual threshold established by UMRA for private-sector mandates (\$139 million in 2009, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO’s estimate of the impact of S. 275 on direct spending and revenues is shown in the following table. The costs of this legislation fall within budget function 550 (health).

BASIS OF ESTIMATE

S. 275 contains provisions that would both increase and decrease direct spending, as well as increase federal revenues. CBO estimates the net budgetary impact of the legislation will be to reduce federal budget deficits by \$1.0 billion over the 2009-2019 period.

	By Fiscal Year, in Billions of Dollars												2009-	2009-
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2014	2019	
CHANGES IN DIRECT SPENDING														
Estimated CHIP Allotments	5.6	7.5	8.5	10.0	12.4	0.7	0.7	0.7	0.7	0.7	0.7	44.6	48.1	
Estimated Outlays	2.4	4.5	7.4	8.7	9.8	7.0	5.9	6.4	6.8	7.2	7.7	39.8	73.8	
CHANGES IN REVENUES														
Estimated On-budget Revenues	3.8	7.4	7.1	7.1	7.4	6.7	6.9	6.8	6.7	6.7	6.6	39.2	72.5	
Estimated Off-budget Revenues	*	0.1	0.2	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1	1.3	1.7	
Total Changes in Revenues	3.8	7.5	7.3	7.4	7.7	7.0	7.0	6.8	6.8	6.7	6.7	40.9	74.8	
NET DEFICIT IMPACT ^a														
Net On-Budget Effects	-1.4	-2.9	0.3	1.6	2.4	0.3	-0.9	-0.4	0.1	0.6	1.1	0.3	0.6	
Net On- and Off- Budget Effects	-1.5	-3.1	0.1	1.3	2.1	*	-1.0	-0.5	*	0.5	1.0	-1.1	-1.0	

Memorandum:

CHIP Allotments Assumed in the Current-Law Baseline	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	30.5	55.7
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a. Negative numbers denote a reduction in projected deficit; positive numbers denote an increase in projected deficits.

Notes: Components may not sum to totals because of rounding.
* = between -\$50 million and \$50 million.

Sources: CBO and the Joint Committee on Taxation.

Direct Spending

Provisions Affecting CHIP Benefits and Administrative Costs. CBO estimates that S. 275 would increase CHIP outlays on benefits and administrative costs by about \$31.4 billion over the 2009-2014 period and by \$34.5 billion over the 2009-2019 period, relative to CBO's baseline projections over that period. The increase in CHIP outlays would be associated primarily with increased funding to maintain current program levels and allow states the option to expand their existing CHIP programs. Under CBO's current baseline projections, funding for CHIP allotments is assumed to continue at approximately \$5 billion each year after the program's scheduled expiration on March 31, 2009. S. 275 would increase CHIP allotments above that level by a total of \$43.9 billion over the 2009-2013 period. In fiscal year 2013, the bill would provide two semi-annual allotments of \$2.85 billion, which are lower than the allotment levels in the

four previous years. The first semi-annual allotment in 2013 would be accompanied by one-time funding for the program of approximately \$11.7 billion. (The 2013 funding would total \$17.4 billion, an increase of \$12.4 billion over the current baseline projection.)

Because S. 275 would authorize CHIP through 2013, baseline rules established by the Balanced Budget and Emergency Deficit Control Act of 1985 call for extrapolating an annualized level of program funding at the end of authorization (in 2013) for the remainder of the baseline projection period, 2014 through 2019. Consequently, this estimate assumes that funding for CHIP would continue at the extrapolated annual amount of \$5.7 billion (approximately \$700 million per year more than the current baseline amount).

Performance Bonus Payments to States. S. 275 would provide funding for performance bonus payments using a two-tiered structure. Those bonus payments are designed to offset additional enrollment costs resulting from specified enrollment and retention efforts. To be eligible for those bonus payments, a state would have to meet at least five enrollment and retention criteria specified in the bill. The legislation would establish a benchmark level above which states can receive bonus payments for children enrolled in Medicaid. A threshold separating the two payment tiers would be set at 10 percent above the benchmark level. States that enroll children who are in the first tier (above the benchmark level and below the 10 percent threshold) would receive bonus payments that are 15 percent of projected per capita state Medicaid expenditures. States that enroll children in the second tier (at or above the 10 percent threshold) would receive bonus payments totaling 62.5 percent of projected per capita state Medicaid expenditures. CBO estimates that performance bonus payments would increase direct spending by \$4.4 billion over the 2009-2019 period.

Child Enrollment Contingency Fund. S. 275 would provide additional funding to states to maintain their current program levels over the 2009-2013 period. Such funding would be available to states whose spending exceeds their allotments in any fiscal year of the reauthorization period. CBO estimates that the contingency fund would increase direct spending by \$0.8 billion over the 2009-2013 period (with no impact after 2013).

Medicaid Spending Due to Interactions with CHIP. CBO expects an interaction between CHIP and the Medicaid program under S. 275. There are three key components to that interaction. CBO estimates that Medicaid spending would decrease as additional funding is provided to CHIP. When available CHIP funding is insufficient to maintain program coverage levels, states may continue to receive federal matching funds for some children at the lower Medicaid matching rate. Therefore, additional funding for CHIP would reduce the number of children shifted to Medicaid. Medicaid spending also would

increase as adults move from CHIP to Medicaid coverage, consistent with the requirement under the bill for states to cease coverage of childless adults through CHIP. Finally, the bill's bonus payments would lead to increased enrollment of children in Medicaid, further increasing Medicaid spending. CBO estimates that Medicaid spending associated with these interactions would increase by \$23.2 billion over the 2009-2019 period.

Verification of Declaration of Citizenship or Nationality for Purposes of Eligibility for Medicaid and CHIP. The bill would provide an alternative process for states to use in verifying citizenship when determining Medicaid eligibility. Instead of presenting satisfactory documentary evidence as required under the Deficit Reduction Act of 2005, states could submit the name and Social Security number of the individual to the Commissioner of Social Security. The Commissioner would then determine whether the name and Social Security number provided by the state is consistent with information in the records maintained by the Commissioner. If the information is not consistent, the state would make a reasonable effort to address the causes of the inconsistency. If the inconsistency cannot be resolved, the individual would be disenrolled from the program. The bill also would apply the verification process to CHIP.

Because this provision would enable more people to prove eligibility for Medicaid, or enroll in Medicaid sooner, CBO estimates that federal spending for Medicaid would increase by \$5.1 billion over the 2009-2019 period. CBO estimates no changes in direct spending for CHIP resulting from this provision. The bill also would provide an appropriation of \$5 million to the Commissioner of Social Security to carry out the Commissioner's responsibilities under the bill.

Permitting States to Ensure Coverage of Certain Children and Pregnant Women under the Medicaid Program and CHIP without a Five-Year Delay. The bill would allow states to waive the restriction on providing Medicaid and CHIP coverage to legal immigrants before five years of lawful residency in the United States. That provision would apply only to pregnant women and children. CBO estimates that this change would increase direct spending under Medicaid by \$3.9 billion over the 2009-2019 period.

Medicaid Savings from Increasing the Tobacco Excise Tax. CBO estimates that the increase in the tobacco excise tax would reduce the number of smokers. A decline in smoking among pregnant women would result in fewer low-birth-weight deliveries, including some funded by Medicaid. CBO estimates that as a result, federal spending for Medicaid would decrease by \$0.2 billion over the 2009-2019 period.

Revenues

Tobacco Excise Tax. The legislation contains provisions that would raise several types of excise taxes on tobacco. Those provisions would raise the federal excise tax on cigarettes from 39 cents a pack to \$1.01 a pack, and would also increase taxes on other tobacco products. JCT estimates that those provisions would increase revenues by \$71.4 billion over the 2009-2019 period.

Corporate Estimated Tax Payments Due in 2013 and 2014. S. 275 would shift revenues from fiscal year 2014 to fiscal year 2013 by adjusting the portion of corporate estimated tax payments due from July through September of 2013. JCT estimates that this change would increase revenues by \$0.3 billion in 2013 and reduce them by \$0.3 billion in 2014. The effect on “on-budget” revenues would be an increase of \$0.3 billion over the 2009-2013 period; there would be no net revenue effect over the 2009-2019 period.

Payroll Taxes. S. 275 also would affect both on-budget (Medicare) and off-budget (Social Security) payroll taxes, due primarily to changes in employer-sponsored health insurance coverage. CBO estimates that these provisions would increase on-budget revenues by \$1.1 billion over the 2009-2019 period. Off-budget revenues would increase by \$1.7 billion over the 2009-2019 period.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has reviewed the non-tax provisions (Title I through Title VI, excluding section 311(a)) of the bill and determined that they contain no intergovernmental mandates as defined in UMRA.

An existing provision in the Public Health Service Act would allow state, local, and tribal governments, as employers that provide health benefits to their employees, to opt out of provisions of the bill that amend that act. Consequently, the bill’s requirements that employers comply with provisions associated with premium assistance under the Medicaid and CHIP programs would not be intergovernmental mandates as defined in UMRA. The bill would affect the budgets of those governments only if they chose to comply with the requirements imposed on group health plans.

CBO estimates that enactment of this bill would result in additional net spending by states of about \$9.8 billion over the 2009-2013 period for the CHIP program. In general,

state, local, and tribal governments would benefit from the continuation of existing CHIP grants, the creation of new grants, and broader flexibility and options in the program.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

CBO has reviewed the non-tax provisions of the bill provisions and determined that they would impose mandates (as defined in UMRA) on the private sector. CBO estimates that the direct cost of complying with those mandates would not exceed the threshold established by UMRA for private-sector mandates (\$139 million in 2009, adjusted annually for inflation).

The bill would require group health plans and issuers of group health insurance in connection with a group health plan to permit employees to enroll in the group health plan if they lose Medicaid or CHIP eligibility or become eligible for premium assistance through Medicaid or CHIP. The bill would also require employers to inform employees of potential premium assistance opportunities, if available.

PREVIOUS CBO ESTIMATE

On January 13, 2009, CBO provided a cost estimate for H.R. 2, the Children's Health Insurance Reauthorization Act of 2009, as transmitted by the Committee on Energy and Commerce on January 13, 2009. The estimate for the House legislation indicated a net reduction in federal budget deficits of \$1.1 billion over the 2009-2013 period and \$1.7 billion over the 2009-2018 period.

There are several differences between S. 275 and H.R. 2 that lead to differences in CBO's estimates for the two bills. S. 275 would permit states, at their option, to use CHIP funds to provide supplemental dental-only coverage through an employer for children eligible for CHIP. Furthermore, the provision regarding performance bonus payments in S. 275 would require states to meet five of eight specified enrollment and retention criteria to qualify for a bonus payment, whereas H.R. 2 would require states to meet four of seven specified criteria. (S. 275 specifies the same criteria as H.R. 2 but would include one additional criterion – the availability of premium assistance.) Also, the semi-annual allotment structure of S. 275 would result in extrapolated CHIP allotments of approximately \$5.7 billion per year over the 2014-2019 period, compared with extrapolated CHIP allotments of \$6.0 billion per year over the same period for H.R. 2.

Unlike H.R. 2, S. 275 would not include a provision prescribing requirements for hospitals to qualify for the exception to the ownership or investment prohibition on physician referrals to certain hospitals. Finally, S. 275 would levy a slightly higher excise tax on tobacco but would implement a smaller shift in corporate estimated tax payments than the shift contained in H.R. 2.

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