



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

February 11, 2009

H.R. 2 **Children's Health Insurance Program Reauthorization Act of 2009**

As cleared by the Congress and signed by the President on February 4, 2009

SUMMARY

H.R. 2 (enacted as Public Law 111-3) authorizes the Children's Health Insurance Program (CHIP) through fiscal year 2013 and increases federal funding for the program. The program provides health insurance to targeted children of low-income families. The legislation provides performance bonus payments to states to cover enrollment costs resulting from specified enrollment and retention efforts. H.R. 2 also establishes a child enrollment contingency fund to cover state CHIP expenditures beyond the amount allotted in statute for the 2009-2013 reauthorization period. In addition, it adds an additional state option to use CHIP funding to provide a premium assistance subsidy for children enrolled in a qualified health insurance plan, provides additional funding for outreach grants, and will improve access to dental benefits and mental health benefits in CHIP plans.

H.R. 2 includes other provisions related to the Medicaid program and CHIP. Those provisions include ones that will 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 act increases the federal excise tax on tobacco products.

In total, CBO and the Joint Committee on Taxation (JCT) estimate that H.R. 2 will 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 will stem from additional Social Security payroll taxes, which are classified as "off-budget."

The effects on direct spending and revenues over the 2009-2013 and 2009-2018 periods are relevant for enforcing pay-as-you-go rules under the current budget resolution. CBO estimates that H.R. 2 will 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 H.R. 2 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 H.R. 2 will increase on-budget revenues by \$32.8 billion over the 2009-2013 period and \$66.6 billion over the 2009-2018 period, while off-budget revenues will increase by \$1.0 billion and \$1.6 billion, respectively, over those two periods.

On balance, CBO estimates that the legislation will reduce on-budget deficits by less than \$50 million over the 2009-2013 period and by \$0.5 billion over the 2009-2018 period. Combining on- and off-budget effects, H.R. 2 will reduce deficits by a cumulative \$1.0 billion over the 2009-2013 period and by \$2.1 billion over the 2009-2018 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of H.R. 2 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

H.R. 2 contains provisions that will 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	39.5	73.2	
Estimated Off-budget Revenues	*	<u>0.1</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>1.3</u>	<u>1.7</u>	
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 H.R. 2 will 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 will 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 January 2009 baseline projections, funding for CHIP allotments was assumed to continue at approximately \$5 billion each year after the program's previously scheduled expiration on March 31, 2009. H.R. 2 increases CHIP allotments above that level by a total of \$43.9 billion over the 2009-2013 period. In fiscal year 2013, the act will 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 will be accompanied by one-time funding for the program of approximately \$11.7 billion. (The 2013 funding will total \$17.4 billion, an increase of \$12.4 billion over the January baseline projection.)

Because H.R. 2 authorizes 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 will continue at the extrapolated annual amount of \$5.7 billion (approximately \$700 million per year more than the January baseline amount).

Performance Bonus Payments to States. H.R. 2 provides 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 will have to meet at least five enrollment and retention criteria specified in the act. The legislation establishes a benchmark level above which states can receive bonus payments for children enrolled in Medicaid. A threshold separating the two payment tiers will 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) will 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) will receive bonus payments totaling 62.5 percent of projected per capita state Medicaid expenditures. CBO estimates that performance bonus payments will increase direct spending by \$4.4 billion over the 2009-2019 period.

Child Enrollment Contingency Fund. H.R. 2 provides additional funding to states to maintain their current program levels over the 2009-2013 period. Such funding will be available to states whose spending exceeds their allotments in any fiscal year of the reauthorization period. CBO estimates that the contingency fund will 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 H.R. 2. There are three key components to that interaction. CBO estimates that Medicaid spending will 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 will reduce the number of children shifted to Medicaid. Medicaid spending also will increase as adults move from CHIP to Medicaid coverage, consistent with the

requirement under the act for states to cease coverage of childless adults through CHIP. Finally, bonus payments under H.R. 2 will lead to increased enrollment of children in Medicaid, further increasing Medicaid spending. CBO estimates that Medicaid spending associated with these interactions will 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 act provides 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 will 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 will make a reasonable effort to address the causes of the inconsistency. If the inconsistency cannot be resolved, the individual will be disenrolled from the program. The act also applies the verification process to CHIP.

Because this provision will enable more people to prove eligibility for Medicaid, or enroll in Medicaid sooner, CBO estimates that federal spending for Medicaid will increase by \$5.1 billion over the 2009-2019 period. CBO estimates no changes in direct spending for CHIP resulting from this provision. H.R. 2 also provides an appropriation of \$5 million to the Commissioner of Social Security to carry out the Commissioner's responsibilities under the act.

Permitting States to Ensure Coverage of Certain Children and Pregnant Women under the Medicaid Program and CHIP without a Five-Year Delay. H.R. 2 allows 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 will apply only to pregnant women and children. CBO estimates that this change will 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 will reduce the number of smokers. A decline in smoking among pregnant women will result in fewer low-birth-weight deliveries, including some funded by Medicaid. CBO estimates that as a result, federal spending for Medicaid will decrease by \$0.2 billion over the 2009-2019 period.

Revenues

Tobacco Excise Tax. The legislation contains provisions that will raise several types of excise taxes on tobacco. Those provisions will raise the federal excise tax on cigarettes from 39 cents a pack to \$1.01 a pack, and will also increase taxes on other tobacco products. JCT estimates that those provisions will increase revenues by \$72.1 billion over the 2009-2019 period.

Corporate Estimated Tax Payments Due in 2013 and 2014. H.R. 2 will 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 will increase revenues by \$0.3 billion in 2013 and reduce them by \$0.3 billion in 2014, with no net revenue effect over the 2009-2019 period.

Payroll Taxes. H.R. 2 also will 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 will increase on-budget revenues by \$1.1 billion over the 2009-2019 period. Off-budget revenues will increase by \$1.7 billion over the 2009-2019 period.

PREVIOUS CBO ESTIMATES

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

CBO also transmitted a cost estimate on January 26, 2009, for S. 275, the Children's Health Insurance Reauthorization Act of 2009, as reported by the Senate Committee on Finance on January 16, 2009. The estimate for the Senate legislation indicated a net reduction in on-budget deficits of \$0.5 billion over the 2009-2018 period, with a cumulative deficit reduction of \$1.0 billion for both on- and off-budget effects over the 2009-2019 period.

The enacted version of H.R. 2 differs only slightly from S. 275 as reported by the Committee on Finance, with no difference in the estimated net impact on the federal budget.

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