



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

November 2, 1999

H.R. 1180 **Ticket to Work and Work Incentives Improvement Act of 1999**

As passed by the House of Representatives on October 19, 1999

SUMMARY

H.R. 1180 would alter cash and health care benefits for people with disabilities. Title I would revamp the system under which people collecting benefits from Disability Insurance (DI) and Supplemental Security Income (SSI) receive vocational rehabilitation (VR) services and would make it easier for working beneficiaries to retain or regain cash benefits. Title II would provide states with options to extend Medicaid coverage to certain disabled workers, enhance Medicare coverage for people who leave the DI rolls because of work, and create a grant program and demonstration projects for states to assist disabled workers. Title III would require several demonstration projects affecting DI recipients. To offset the costs of the act, title IV would tighten restrictions on the payment of Social Security benefits to prisoners, give certain members of the clergy another opportunity to enroll in the Social Security system, levy a processing charge on attorneys who represent DI claimants, reduce some Medicare and Medicaid costs, and change the yields guaranteed to lenders in the student loan program.

CBO estimates that the act's effects on direct spending and revenues would add to the total federal surplus by \$43 million over the 2000-2004 period. Of that amount, \$168 million would represent an increase in the off-budget Social Security surplus, offset by a \$125 million reduction in the on-budget surplus. Over the 10-year period from 2000 through 2009, however, the act's effects on direct spending and revenues would reduce the total federal surplus by an estimated \$261 million. Because H.R. 1180 would affect receipts and direct spending, pay-as-you-go procedures would apply. Furthermore, assuming appropriation of the necessary sums, additional discretionary spending under this act would total about \$240 million over the 2000-2004 period.

Although H.R. 1180 is intended to encourage people who collect disability benefits to return to work, CBO estimates modest savings in the DI and SSI programs. CBO expects that the

provisions of title I making VR benefits more widely available would spur some recipients to leave the rolls. The evidence that the rest of the act would lead to DI and SSI savings, however, is thin. As described below, current law already contains incentives designed to smooth beneficiaries' return to work, yet only a small percentage of beneficiaries take advantage of them. CBO therefore expects that the program liberalizations in this act would not greatly change behavior. Some of the act's provisions would be at state option and would not be available everywhere. The proposed enhancements to health care coverage for disabled workers, and the outreach and information programs envisioned by the act, could actually lead to an increase in applications for cash benefits. Finally, H.R. 1180 would not change the laws governing cash benefits. In particular, the requirement in current law that DI benefits stop once the beneficiary has significant earnings—defined as \$700 a month—would remain, except for small-scale experiments with alternative rules (see title III).

Section 4 of the Unfunded Mandates Reform Act (UMRA) excludes from the application of that act any legislative provisions that relate to the Old-Age, Survivors, and Disability Insurance program under title II of the Social Security Act, including tax provisions in the Internal Revenue Code. CBO has determined that the provisions of H.R. 1180 either fall within that exclusion or contain no intergovernmental mandates. Provisions of the act that are not excluded from the application of UMRA contain one private-sector mandate; CBO estimates that its cost would be well below the threshold specified in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1180 on direct spending and revenues is summarized in Table 1. This legislation would affect budget functions 500 (education, training, employment, and social services), 550 (health), 570 (Medicare), 600 (income security), and 650 (Social Security).

TABLE 1. SUMMARY OF ESTIMATED EFFECTS OF H.R. 1180 ON DIRECT SPENDING AND REVENUES

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
DIRECT SPENDING					
Spending Under Current Law					
OASDI	404,075	422,855	442,719	463,820	486,589
Supplemental Security Income	29,625	31,258	33,005	34,826	36,766
Medicare ^a	205,707	219,269	227,239	247,888	265,755
Medicaid	116,578	124,841	134,927	146,073	159,094
HHS Mandatory Grants	0	0	0	0	0
Student Loans	<u>4,112</u>	<u>4,526</u>	<u>3,807</u>	<u>4,964</u>	<u>4,777</u>
Total	760,097	802,749	841,697	897,571	952,981
Proposed Changes					
OASDI	-16	-36	-33	-25	-21
Supplemental Security Income	-1	-7	-7	-8	-12
Medicare ^a	a	7	24	45	77
Medicaid	1	-6	-10	-11	-14
HHS Mandatory Grants	8	14	15	16	16
Student Loans	<u>a</u>	<u>-5</u>	<u>-10</u>	<u>-5</u>	<u>0</u>
Total	-8	-32	-21	13	47
On-Budget	8	4	12	38	67
Off-Budget (OASDI)	-16	-36	-33	-25	-21
Proposed Spending Under H.R. 1180					
OASDI	404,059	422,819	442,686	463,795	486,568
Supplemental Security Income	29,624	31,251	32,998	34,818	36,754
Medicare ^a	205,707	219,276	227,263	247,933	265,832
Medicaid	116,579	124,835	134,917	146,062	159,080
HHS Mandatory Grants	8	14	15	16	16
Student Loans	<u>4,112</u>	<u>4,521</u>	<u>3,797</u>	<u>4,959</u>	<u>4,777</u>
Total	760,089	802,717	841,676	897,584	953,028
REVENUES					
Proposed Changes					
On-Budget	1	1	1	1	1
Off-Budget (OASDI)	<u>2</u>	<u>7</u>	<u>9</u>	<u>9</u>	<u>9</u>
Total	3	8	10	10	10
DEFICIT (-) OR SURPLUS					
Proposed Changes					
On-Budget	-7	-3	-11	-37	-67
Off-Budget (OASDI)	<u>18</u>	<u>43</u>	<u>42</u>	<u>34</u>	<u>30</u>
Total	11	41	31	-3	-37

Note: Components may not sum to totals due to rounding.

OASDI=Old-Age, Survivors, and Disability Insurance, HHS=Department of Health and Human Services.

a. Medicare consists of outlays of the Hospital Insurance and Supplementary Medical Insurance trust funds, less premiums.

BASIS OF ESTIMATE

For purposes of estimating the budgetary impact of H.R. 1180, CBO assumes enactment by December 1, 1999. Table 2 displays detailed estimates of the effects of the act on direct spending and revenues.

Current Law

About 8 million people between the ages of 18 and 64 now collect cash benefits under DI, SSI, or both. In both programs, applicants must show that they are incapable of substantial work in order to be awarded benefits. Nevertheless, the programs have several provisions that are meant to smooth beneficiaries' return to work. The law permits DI recipients to earn unlimited amounts for a nine-month period (known as the trial work period, or TWP) and a subsequent three-month grace period before suspending benefits. During the next three years—a period known as the extended period of eligibility, or EPE—those beneficiaries may automatically return to the DI rolls if their earnings sink below substantial gainful activity (SGA, now defined in regulation as \$700 per month). Furthermore, Medicare benefits (for which DI beneficiaries qualify after two years on the rolls) also continue for three years even if cash benefits are suspended. Medicare coverage then stops unless the worker pays a steep premium (up to \$309 a month in 1999).

The SSI disability program is restricted to people with low income and few resources. Although applicants for SSI benefits must meet the same disability criteria as in the DI program, the SSI program's subsequent treatment of earnings differs. SSI recipients who work get a reduced benefit (essentially, losing \$1 of benefits for each \$2 of earnings over \$85 a month) but may not have to give up their benefit entirely. If their earnings top SGA but they are still medically disabled, they move into section 1619(a) status and still collect a small cash benefit. If their earnings rise further, they enter 1619(b) status, under which they collect no cash benefit but retain Medicaid. If their incomes are too high even for the 1619(b) program, they may still enroll in Medicaid if their state offers a buy-in program permitted by the Balanced Budget Act of 1997 (BBA).

Both DI and SSI recipients are evaluated at the time of award for their potential to go back to work. Sketchy data suggest that the current VR program serves only a small fraction of DI and SSI recipients. Approximately 10 percent to 15 percent of new DI and SSI recipients are referred to state VR agencies; although SSA does not track what happens to them next, scattered clues suggest that about 10 percent of those referred are accepted. If the beneficiary completes nine months of employment at SGA, the VR provider is reimbursed by the Social Security Administration (SSA). Recently, SSA has made approximately 650,000 DI awards a year; therefore, around 7,000 to 8,000 probably received VR services. SSA pays about 6,000 claims per year for VR services provided to DI recipients. SSA also pays about 6,000 claims for VR services to SSI recipients. Since about 3,000 claims are for people who collect benefits under both programs, total claims reimbursed are about 9,000 a year.

TABLE 2. ESTIMATED DIRECT SPENDING AND REVENUE EFFECTS OF H.R. 1180, BY PROVISION

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Title I										
Tickets to Work and Self-Sufficiency										
Disability Insurance	a	a	2	3	-5	-21	-45	-51	-52	-53
Medicare	a	a	a	a	1	1	1	-3	-11	-25
Supplemental Security Income	<u>a</u>	<u>a</u>	<u>1</u>	<u>1</u>	<u>-2</u>	<u>-7</u>	<u>-16</u>	<u>-22</u>	<u>-27</u>	<u>-32</u>
Subtotal (effect on outlays)	a	a	3	4	-7	-27	-60	-75	-90	-110
Ban on Work CDRs for Certain DI Beneficiaries										
Disability Insurance	0	0	0	5	15	20	25	25	25	25
Medicare	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>5</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>11</u>
Subtotal (effect on outlays)	0	0	0	7	20	28	34	35	35	36
Expedited Reinstatement of DI Benefits										
Disability Insurance	0	1	1	1	2	3	3	4	5	6
Medicare	<u>0</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>3</u>
Subtotal (effect on outlays)	0	1	1	1	3	4	4	6	7	9
Title II										
State Option to Continue Medicaid Buy-in After a CDR										
Medicaid	1	1	1	2	2	3	4	5	6	7
Extension of Medicare for Former DI Beneficiaries										
Medicare	0	10	29	48	74	104	141	161	186	219
Infrastructure Grants to States										
HHS Mandatory Grants	3	3	4	4	4	5	5	6	6	7
Health Care Demonstration Project										
HHS Mandatory Grants	5	11	11	12	12	5	0	0	0	0
Medicaid Enrollment Interaction										
Medicaid	4	4	5	5	6	6	7	7	8	9
Title III										
Extension of DI Demonstration Project Authority										
Disability Insurance	3	5	5	5	5	3	a	a	a	a
\$1-for-\$2 Demonstration Projects										
DI Benefit Costs	0	0	3	8	13	18	19	18	18	18
Medicare Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>4</u>	<u>7</u>	<u>9</u>	<u>9</u>	<u>9</u>
Subtotal (effect on outlays)	0	0	3	8	15	22	26	27	28	27

Continued

TABLE 2. Continued

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Title IV										
Provisions Affecting Prisoners										
Payments to Prisons (OASDI)	2	7	8	9	9	10	10	10	10	10
Payments to Prisons (SSI)	a	1	1	1	1	1	1	1	1	1
Savings in Benefits (OASDI)	-5	-24	-28	-31	-35	-35	-35	-35	-35	-35
Savings in Benefits (SSI)	<u>-2</u>	<u>-7</u>	<u>-8</u>	<u>-9</u>	<u>-11</u>	<u>-11</u>	<u>-11</u>	<u>-11</u>	<u>-11</u>	<u>-11</u>
Subtotal (effect on outlays)	-5	-24	-27	-31	-36	-35	-35	-35	-35	-35
Open Season for Clergy to Join Social Security										
Off-Budget (OASDI) Revenues	2	7	9	9	9	10	10	10	10	11
On-Budget Revenues—HI	1	2	2	2	2	2	2	2	2	2
Other On-Budget Revenues	a	-1	-1	-1	-1	-1	-1	-1	-1	-1
OASDI Benefits	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Subtotal (effect on total surplus)	3	8	10	10	10	10	10	10	11	11
Collection of Processing Fees from Attorneys										
Disability Insurance	-15	-25	-25	-25	-25	-25	-25	-25	-25	-25
Restriction on Payments for School-Based Medicaid										
Medicaid	-3	-11	-16	-18	-22	-27	-32	-38	-45	-52
Expansion of Medicaid Anti-Fraud Authority										
Medicare	0	-3	-5	-5	-5	-5	-5	-5	-5	-5
Change in Lender Yields on Student Loans										
Student loans	a	-5	-10	-5	0	0	0	0	0	0
Total										
Outlays										
On-Budget	8	4	12	38	67	88	112	123	130	141
Off-Budget	<u>-16</u>	<u>-36</u>	<u>-33</u>	<u>-25</u>	<u>-21</u>	<u>-27</u>	<u>-47</u>	<u>-53</u>	<u>-53</u>	<u>-53</u>
Total	-8	-32	-21	13	47	61	64	70	76	88
Revenues										
On-Budget	1	1	1	1	1	1	1	1	1	1
Off-Budget	<u>2</u>	<u>7</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>11</u>
Total	3	8	10	10	10	11	11	11	11	12
Deficit (-) or Surplus (+)										
On-Budget	-7	-3	-11	-37	-67	-87	-111	-122	-129	-140
Off-Budget	<u>18</u>	<u>43</u>	<u>42</u>	<u>34</u>	<u>30</u>	<u>36</u>	<u>57</u>	<u>63</u>	<u>64</u>	<u>64</u>
Total	11	41	31	-3	-37	-50	-54	-59	-65	-76

Notes: Components may not sum to totals due to rounding.

OASDI= Old-Age, Survivors, and Disability Insurance, DI=Disability Insurance, SSI=Supplemental Security Income, CDR=Continuing Disability Review, HI=Hospital Insurance (Medicare Part A), HHS=Department of Health and Human Services.

a. Less than \$500,000.

In 1996, SSA began recruiting alternate providers under the Referral System for Vocational Rehabilitation Providers (RSVP) program. Candidates for this program must first be referred to and rejected by the state VR agencies, and the alternate providers face the same reimbursement system (that is, a single payment after nine months of substantial work). Thus, VR for DI and SSI recipients remains fundamentally a state program.

Some DI and SSI recipients return to work without the help of VR agencies. Research suggests that only 10 percent to 20 percent of DI recipients ever work after they start collecting benefits, and only 2 percent to 3 percent eventually have benefits withheld because of earnings. In contrast, SSA reimburses claims for VR services for about 1 percent of recipients. Thus, for each VR success, one or two other DI recipients go back to work and are suspended from the rolls without VR.

In both the DI and SSI programs, recipients are reviewed periodically to verify that they are still disabled. These Continuing Disability Reviews (CDRs) are scheduled according to SSA's assessment of the likelihood of improvement. If medical improvement is judged by SSA to be possible, the cycle calls for a review every three years. (Those beneficiaries thought likely to improve are reviewed more often, and those unlikely to improve less often.) If the CDR results in a finding that the beneficiary is no longer disabled, cash and medical benefits stop. A CDR can also be triggered by a report of earnings.

Ticket to Work and Self-Sufficiency Program and Related Provisions (Title I)

Tickets to Work and Self-Sufficiency. Title I would change the way that VR services are provided to recipients of DI and SSI benefits. It would permit nearly any recipient who desires VR to receive it, allow clients to choose from a variety of providers in addition to state VR agencies, and stretch out reimbursements to providers for up to five years, contingent on their clients' sustained absence from the DI or SSI rolls.

Under H.R. 1180, SSA would issue tickets to DI and SSI beneficiaries that they could assign to approved VR providers, whether state, private for-profit, or nonprofit. The act would grant wide latitude to SSA in deciding the terms and conditions of the tickets: SSA tentatively plans to issue tickets to new beneficiaries at the time of award, unless they are deemed likely to recover, and to current beneficiaries after a CDR. By accepting a ticket, providers—labeled "networks" in the act—would agree to supply services, such as training, assistive technology, physical therapy, or placement. A program manager, selected by SSA, would aid in recruiting providers and administering the program.

Providers could choose between two forms of reimbursement from SSA. One system would be based solely on outcomes; the provider would receive incentive payments equal to 40 percent of the average DI or SSI benefit for up to five years, so long as the client stayed off the rolls. Some providers fear, though, that they would experience cash-flow problems under such a system. To address that concern, the act also offers a blended system, called the "milestones-outcome" system. Under that system, SSA would make some payments earlier, but would trim subsequent incentive payments to ensure that the overall cost (calculated on a net present value basis) did not exceed the cost of a pure outcomes system.

The new program would be phased in gradually. H.R. 1180 calls for it to start in selected areas a year after enactment and to operate nationwide three years after that.

CBO estimates that about 7 percent of new beneficiaries would seek VR services if they were readily available, versus only about 1 percent who receive them under current law. The results of both the Transitional Employment Demonstration (TED, a demonstration conducted in the mid-1980s and confined to mentally retarded recipients) and Project Network (a demonstration begun in 1992 and open to both DI and SSI beneficiaries) suggest that about 5 percent of beneficiaries would enroll in VR if given the chance. CBO judged that the level of interest ultimately would slightly exceed 5 percent for two reasons. First, intake under Project Network developed bottlenecks, which may have discouraged some potential participants. Second, Project Network barred any recipients who were employed or self-employed from enrolling. No such bar would exist under H.R. 1180, however, and such recipients would probably be interested in receiving services and would be attractive to providers.

Research suggests that getting VR raises the propensity to work and thus the chances for an earnings-related suspension of DI or SSI benefits. But the handful of beneficiaries who would sign up for VR are probably the most motivated, and many would have worked anyway. In fact, CBO believes that one effect of H.R. 1180 would be to enable providers to be reimbursed for providing services for many people who would have worked anyway. The projected effects of H.R. 1180 can be illustrated by considering the experiences of one hypothetical cohort of 650,000 new DI beneficiaries. Under current law, about 7,800 might be served under the state VR programs; 6,100 of them would eventually generate a reimbursement by SSA and their DI benefits would be suspended for at least a month. Benefits for another 8,300 would be suspended due to earnings, for at least one month, without any reimbursement to VR. Thus, total suspensions would be about 14,400, or about 2 percent of the cohort, under current law. CBO estimates that, if those beneficiaries could freely enroll in VR using a "ticket," about 7 percent or 47,000 would get VR services. Most of those VR clients would work, and many (about 13,400) would have their benefits

suspended for at least one month, an increase of 7,300 in VR-reimbursed cases. However, CBO estimates that about 80 percent of these workers, or about 5,900, would have gone back to work unaided. Thus, for this cohort, net suspensions would be about 1,400 higher under H.R. 1180.

In estimating the impact of H.R. 1180, CBO adjusted those hypothetical figures for timing factors and projected changes in caseloads. First, CBO projects that the volume of disabled-worker awards will gradually climb from 650,000 in 2000 to about 890,000 in 2009. That increase reflects the aging of the baby-boom generation into its high-disability years and the scheduled increases in Social Security's normal retirement age. Second, CBO assumed that some extra rehabilitations would occur among the nearly 5 million people now on the DI rolls, not just among new awards, although current beneficiaries are generally poorer candidates for VR than new applicants with more recent work experience. Third, CBO adjusted the numbers for the gradual phase-in of the new system. Under the act's schedule, assuming enactment by December 1999, the first services would be rendered at a handful of sites in fiscal year 2001. If those clients engaged in trial work in 2002, the first extra suspensions would occur in 2003.

Specifically, CBO estimates that the number of net additional suspensions of DI benefits—that is, suspensions that would not occur in the absence of the new program—would be 500 in 2003, 2,200 in 2004, and an average of 4,100 annually between 2005 and 2009. Gross suspensions that involve reimbursement to a VR provider would climb gradually from 6,000 to 8,000 a year under current law, but would be markedly higher—about 17,000 in 2009, double the current-law estimate—under the proposal. And the number of suspensions involving no reimbursement to VR would fall.

CBO also had to make assumptions about recidivism. Many studies have documented that DI recipients who leave the rolls tend to return. It is not clear whether recipients of VR services are more or less likely to return to the rolls than others; some evidence suggests that the extra boost provided by VR fades over time. Because H.R. 1180 would pay providers for up to five years, but only if the recipient stays off the rolls, assumptions about recidivism are critical. Based on a variety of sources, CBO assumes that recipients suspended from the rolls have about a two-thirds chance of still being suspended one year later, about a one-half chance three years later (when, technically, their DI entitlement is terminated), and a 40 percent chance after five years.

Effects of the Tickets Program on DI. The budgetary consequences of H.R. 1180, from the standpoint of the DI program, are detailed in Table 3 and would consist of six effects.

Table 3. Estimated Effects on Direct Spending of the Ticket to Work and Self-Sufficiency Program

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
DI Beneficiaries										
Milestone Payments to VR Providers	0	a	1	6	14	22	26	29	34	39
Incentive Payments to VR Providers	0	a	a	3	15	33	59	81	107	134
Partial Repeal of Current VR System	0	a	a	-4	-13	-22	-33	-50	-70	-91
DI Benefits Avoided	0	a	a	-5	-25	-59	-104	-122	-138	-152
Extra DI Benefits Paid	<u>0</u>	<u>a</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>5</u>	<u>8</u>	<u>11</u>	<u>14</u>	<u>18</u>
Total, DI	0	a	2	3	-5	-21	-45	-51	-52	-53
Medicare Savings ^b	0	0	a	a	1	1	1	-3	-11	-25
SSI Beneficiaries										
Milestone Payments to VR Providers	0	a	1	3	7	11	13	14	17	19
Incentive Payments to VR Providers	0	a	a	1	4	9	15	21	28	35
Partial Repeal of Current VR System	0	a	a	-2	-6	-11	-17	-25	-35	-45
SSI Benefits Avoided	0	a	a	-1	-7	-16	-27	-32	-36	-40
Extra SSI Benefits Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total, SSI	0	a	1	1	-2	-7	-16	-22	-27	-32

Notes: Components may not sum to totals due to rounding.

DI = Disability Insurance, SSI = Supplemental Security Income, VR = Vocational Rehabilitation.

a. Less than \$500,000.

b. These amounts reflect Medicare savings that would occur under current law, under which Medicare eligibility ends three years after the former DI recipient has completed trial work. Title II of the act would extend Medicare for another six years for these beneficiaries.

- **Milestone payments to VR providers.** As explained earlier, the act would give providers a choice between a pure outcome-based system (in which providers would get periodic payments only during the period of suspension) and a blended outcome-milestone system (in which they could get some money earlier). CBO expects that most providers would opt for the blended system, which CBO assumes to consist of a \$500 payment after several months of work and a \$1,000 bonus on the date of suspension. Placements would be considerably easier for providers to achieve than suspensions. The first milestone payments would be made in 2002 but would be very small. They would grow steadily thereafter; in 2009, for example, CBO estimates that—with about 65,000 people a year receiving rehabilitation services—about 45,000 would find employment and

generate a payment of \$500 for their VR provider, and 15,500 would be suspended, at least briefly, from cash benefits, generating \$1,000 for their provider. CBO estimates that milestone payments in that year would total \$39 million.

- Incentive payments to VR providers. The incentive payments would occur over a period of up to five years if the beneficiary remained off the rolls. In the pure outcomes system, incentive payments would be 40 percent of average benefits. CBO assumes that most providers would opt for the blended payment system, under which—in return for getting some earlier milestone payments—they would accept incentive payments of 30 percent. CBO's assumption about recidivism becomes crucial here. By 2009, the benefits of about 59,000 ticket-users would have been initially suspended in the last five years, potentially generating incentive payments for their providers. But 20,000 of those 59,000 are assumed to have returned to the DI rolls. At 30 percent of an average benefit (about \$945 a month), the other 39,000 people would generate \$134 million in incentive payments to their VR providers.
- Partial repeal of current VR system. CBO estimates that, under current law, the DI trust fund would reimburse about 6,000 claims for VR services in 2000 (at an average cost of about \$11,500) and about 8,000 in 2009 (at an average cost of about \$14,500). The new program would gradually replace the current system. Even by 2009, some vestiges of the current system would probably remain; although H.R. 1180 calls for the new system to be in place nationwide by 2004, that timetable may not be met. Furthermore, under H.R. 1180, state VR agencies—but not private providers—would be allowed to retain the current system of reimbursement. Therefore, CBO estimates that in 2009 about \$91 million, or about 80 percent of the money expected to be spent on VR under current law, would be saved.
- DI benefits avoided. The various payments to providers discussed above all depend on the number of gross rehabilitations. The savings in DI benefits, in contrast, depend on the number of net or extra rehabilitations. That distinction is important: when providers serve clients who would have worked and eventually been suspended anyway, they do not generate savings in DI benefits.

Over the 2003-2009 period, CBO estimates that there would be a total of 64,000 gross rehabilitations of ticket-holders, of which only 23,000 would represent additional rehabilitations. Under CBO's assumptions about recidivism, about

13,000 of those 23,000 would still be off the rolls in 2009; at an average benefit of about \$945 a month, \$152 million in benefit savings would result.

- Extra DI benefits paid. Some people might file for DI benefits in order to get VR services and the other benefit enhancements provided under H.R. 1180. They may even be encouraged to do so by prospective providers (for example, by an insurance company that helps to run their employer's private disability or workers' compensation coverage). For those induced filers, the entire benefit cost (for any time they spend on the rolls) and the VR cost (if they generate either milestone or incentive payments for their providers) would be a net cost to the DI program.

To some extent, SSA could minimize this problem by setting the terms and conditions under which it would issue tickets—for example, by denying them to beneficiaries who are expected to recover medically. But some such filers might still qualify. By 2009, CBO assumes that about 1,600 such induced filers would be collecting DI benefits, leading to extra costs of \$18 million in that year.

- Resulting Medicare savings. DI recipients who return to work continue to receive Medicare coverage for three years after their suspension from DI. By leading to the rehabilitation and suspension of more DI recipients, H.R. 1180 would generate some savings in Medicare. DI beneficiaries who are capable of working are probably healthier than other beneficiaries, and their per-capita Medicare cost therefore less than average.

Under CBO's assumption that the first services would be rendered in 2001 and the first resulting suspensions in 2003, small Medicare savings would begin three years later, in 2006. By 2009, almost 13,000 extra suspensions would have occurred over the 2003-2006 period, the only group for whom the three-year EPE would have expired. Of those, 5,700 would still be off the DI rolls, and \$35 million in Medicare savings would result.

Although these Medicare savings would result if the Ticket to Work and Self-Sufficiency Program were enacted in isolation, elsewhere H.R. 1180 would give six years of extra Medicare coverage to all beneficiaries who complete an EPE. Therefore, these Medicare savings would be offset by the cost of that provision, which is shown under title II.

These savings would be partly offset by the costs—estimated by CBO to be \$10 million by 2009—attributable to induced filers who stay on DI for two years, long enough to qualify for Medicare.

On balance, over the 2000-2004 period, CBO estimates a negligible net cost in the DI program from the tickets program, because of startup costs and small payments to induced filers. Later, CBO foresees net savings in the vicinity of \$50 million a year, because the savings in DI benefits from extra suspensions would slightly outweigh the costs of paying for additional VR services (see Table 3).

Effects of the Tickets Program on SSI. H.R. 1180 would also bring SSI participants into the new ticket to work program. CBO estimated the effects on the SSI program in a manner similar to the way it developed its estimates for DI, with a few notable differences.

The number of SSI recipients affected by the act is generally estimated to be only half as many as in DI. Under current law, SSA pays for about 9,000 rehabilitations a year—6,000 in DI and 6,000 in SSI, of which 3,000 are concurrent. Under the act, services rendered by providers to concurrent beneficiaries would essentially be compensated under the DI rules. Thus, to avoid double-counting concurrent beneficiaries, CBO generally assumed only half as many cases in its SSI estimates as in the analogous DI estimates.

Average benefits for disabled SSI beneficiaries are also only about half as large as in the DI program—in 2003, for example, about \$425 in SSI versus \$825 in DI. Therefore, all payments under the proposed system that would be pegged to the average benefit, such as the incentive payments to providers, would be smaller for SSI. In fact, that provision has aroused concern that providers would be less willing to provide services to the SSI population. CBO assumes that providers would nevertheless serve this group, perhaps emphasizing cheaper services with repeated interventions if necessary.

Because SSI is limited to beneficiaries with low income and few resources, CBO expects that there would be few induced filers. CBO also assumed that most SSI beneficiaries affected by the act would retain Medicaid coverage through section 1619(b).

The pattern of the projected budgetary impact of H.R. 1180 on the SSI program resembles that for DI: small early costs, giving way to growing savings after 2003.

Ban on Work CDRs for Certain DI Beneficiaries. Beginning in January 2003, the act would bar so-called work CDRs if the beneficiary has been on the rolls for more than

24 months. Work CDRs are triggered by a report of earnings. Beneficiaries would still be subject to regularly scheduled periodic CDRs.

SSA conducts approximately 80,000 work CDRs a year. CBO estimates that about 1,500 people whose benefits would otherwise be terminated would benefit from this provision. Assuming that they are, on average, halfway between periodic CDRs scheduled at three-year intervals, they would get an extra 18 months of benefits. When fully effective, the provision is expected to lead to annual DI costs of about \$25 million and Medicare costs of about \$10 million. Eliminating the work CDRs would save SSA about \$10 million a year in administrative costs.

Expedited Reinstatement of DI Benefits. The act would provide for expedited reinstatement of benefits for former DI recipients whose benefits were terminated because of earnings in the last 60 months. Under current law, the usual five-month waiting period is waived for such former recipients if they seek benefits; but their application is judged no differently from one filed by someone who has never been on the rolls. H.R. 1180 would alter that by stipulating that benefits must be awarded unless SSA can demonstrate that the applicant's medical condition has improved. H.R. 1180 would also provide for automatic payment of up to five months of provisional benefits while the request for reinstatement is under consideration. Generally, those provisional payments would not be subject to recoupment even if the request is ultimately denied. CBO estimates that these liberalized procedures would tip the balance in up to a hundred cases each year, ultimately costing about \$6 million in DI benefits and \$3 million in Medicare expenditures by 2009.

Expanded Availability of Health Care Services (Title II)

Title II of H.R. 1180 would increase direct spending by about \$0.3 billion over the 2000-2004 period and by about \$1.2 billion over the 2000-2009 period through policies that would expand the availability of health care services. It would grant states the option to continue Medicaid for some people whose disability benefits have ended because of medical improvement and would extend Medicare coverage for DI recipients who return to work. Title II would also provide funding for grants to states to develop infrastructure to assist the working disabled and to establish demonstration projects to provide Medicaid benefits to workers with severe impairments who are otherwise likely to become disabled enough to qualify for cash benefits.

State Option to Continue Medicaid Buy-In After a CDR. Under current law, states have the option of allowing certain workers with disabilities with incomes under 250 percent of

poverty to buy into the Medicaid program. This option was created in the Balanced Budget Act of 1997 and to date, a few states have approval to implement it. Based on discussions with state officials, CBO assumes that one-quarter of the states will develop small expansion programs that will increase Medicaid enrollment by an estimated 1,200 disabled individuals.

Section 201 would allow states to extend Medicaid coverage under the buy-in option for those working disabled who lose SSI or DI due to medical improvement, as established at a regularly scheduled CDR, yet still have conditions that qualify as a "severe medically determinable impairment." This option would result in an estimated 5 percent increase in the buy-in population who have medical improvements each year and who choose to continue participating in Medicaid. Continuing coverage for those people would raise federal Medicaid spending by an estimated \$7 million over five years and \$31 million over 10 years.

Extension of Medicare for Former DI Beneficiaries . Section 202 of H.R. 1180 would allow those who complete their EPE in October 2000 or later to receive an extra six years of Medicare benefits without having to pay any Part A premium. Enrollees would pay the ordinary Part B premium (currently \$45.50 a month). That would bring the total period of extended Medicare, after suspension of cash benefits, to nine years. CBO estimates that the cost of this provision would be \$10 million in 2000 and would grow to \$219 million by 2009.

About 15,000 people start an EPE each year, and about 6,000 finish one. These numbers are expected to climb gradually with the growth in DI caseloads and with the extra work efforts spurred by the VR provisions of this act. H.R. 1180 would provide Medicare coverage to people who otherwise would lose it at the end of the EPE. CBO estimates that an extra 21,000 people would gain Medicare eligibility in 2004, the fourth year of the provision. By 2009, that figure would grow to 43,000 (specifically, those who would exhaust their current-law coverage between 2003 and 2009). CBO assumes that the per capita cost for those beneficiaries is about one-half the cost for an average disabled beneficiary, reflecting the likelihood that they are somewhat healthier than other disabled beneficiaries and that some might gain employer-sponsored insurance and rely on Medicare as a secondary payor.

Infrastructure Grants to States. To states that choose the Medicaid BBA buy-in option, section 203 of the act would make available grants to develop and establish the state's capacity for providing services to workers with disabilities. The act would appropriate \$20 million in 2000, \$25 million in 2001, \$30 million in 2002, \$35 million in 2003, and \$40 million in 2004. The amount would then be indexed to the consumer price index (CPI-U) through 2010. Each state's grant would be limited in each year to 15 percent of the estimated total federal and state spending on the Medicaid buy-in under current law or under the new option to enroll persons with a medical improvement. Funds not allocated would

remain available for allocation to states in future years. Funds allocated to states would be available until expended. Based on CBO's estimate of spending under the Medicaid buy-in, the limitation would hold spending levels to only about \$4 million annually; five-year costs would be \$19 million and 10-year costs would be \$49 million.

Health Care Demonstration Project. Under section 204 of the act, states electing to provide Medicaid to the working disabled under the BBA option would also be eligible for mandatory health grants to pay for certain demonstration projects. These projects would provide Medicaid to working persons with physical or mental impairments who could potentially become blind or disabled without such benefits. Those people would be ineligible for Medicaid benefits under current law because they do not yet have conditions that meet the DI or SSI definition of disability. The act would appropriate \$56 million that would remain available for five years, beginning in fiscal year 2000. No payment could be made by the federal government after fiscal year 2005. CBO estimates that the costs of the provision would total \$51 million over the 2000-2004 period and \$56 million over the 2000-2009 period.

Medicaid Enrollment Interaction. Under the act, states would have an incentive to extend Medicaid to the working disabled under the option established in the BBA in order to qualify for funds under the infrastructure grants and demonstration projects. CBO assumes that about seven or eight additional states would pursue the option to buy-in the working disabled to access grant and demonstration project funding, thereby increasing Medicaid enrollment by about 600 individuals. CBO estimates this provision would increase spending by \$23 million over the 2000-2004 period and \$61 million over the 2000-2009 period.

Demonstration Projects and Studies (Title III)

Extension of DI Demonstration Project Authority. SSA has had the authority to conduct certain research and demonstration projects that occasionally require waivers of provisions of title II of the Social Security Act. That waiver authority expired on June 10, 1996. This act would extend it for five years from enactment. This general waiver authority should not be confused with the so-called \$1-for-\$2 demonstrations in the next section; those demonstrations are costlier and longer-lasting than the modest projects that SSA would likely conduct on its own initiative.

When the waiver authority has been in effect, SSA has generally spent between \$2 million and \$4 million annually on the affected projects. CBO judges that the proposed extension

would lead to extra outlays of between \$3 million and \$5 million a year over the 2000-2005 period.

\$1-for-\$2 Demonstration Projects. Under current law, after completing the TWP and the three-month grace period during which earnings are disregarded, a disabled worker gives up his or her entire DI benefit in any month that earnings exceed SGA. Both anecdotal and statistical evidence suggest that many beneficiaries balk at that, instead quitting work or holding their earnings just below the threshold.

H.R. 1180 would require SSA to conduct demonstrations to test the effects of a \$1 reduction in benefits for each \$2 of earnings over thresholds to be set by the agency. It would require that SSA conduct the demonstrations on a wide enough scale, and for a long enough period, to permit valid analysis of the results. CBO assumed that, to meet those criteria, the demonstrations would have to include perhaps half a dozen small states, that the intake phase of the project would have to last three or four years to permit observation of induced filers, and that the incentives themselves would have to be promised to the beneficiaries for an indefinite period.

The gradual phasing out of DI benefits as earnings rise would probably encourage some people who are already on the DI rolls to start work or increase their hours of work. Although fewer beneficiaries would be suspended (i.e., have their benefit reduced to zero), many might have their benefit substantially reduced, leading to DI savings. But such a change would also encourage others to file for DI benefits. Survey data suggest that there are millions of severely impaired people who are nevertheless working and not collecting DI. Filing for benefits, and working part-time, might improve their standards of living, especially if the DI program liberalized its treatment of earnings. In 1994, SSA's Office of the Actuary estimated that applying a \$1-for-\$2 policy for earnings above \$500 (then the definition of SGA) would cost \$5 billion in extra DI benefits over a five-year period and that setting the threshold at \$85 (as in the SSI program) would cost \$2 billion.

Because the demonstrations would pose formidable issues of design and administration, CBO assumes they would not begin until 2002. CBO also assumes that the demonstrations would be conducted in areas with and without the tickets to work and self-sufficiency, to distinguish the effects of the incentives from the effects of the new VR program. CBO also assumes that both variants—setting the threshold at SGA and setting it at \$85—would be tested. Even a relatively small-scale demonstration might thereby apply to approximately 2 percent to 3 percent of the nation. Applying that percentage to the DI benefit costs suggested by the Actuaries' 1994 memo implies that the demonstrations would, after intake is complete, cost almost \$20 million a year in extra DI benefits. They would also lead to slightly higher

Medicare costs, since the induced filers would qualify for Medicare after two years on the DI rolls. In sum, extra benefits under the two programs would reach nearly \$30 million by 2009.

CBO assumes that running the demonstrations and collecting and analyzing data would be handled by an expert contractor, at a cost of several million dollars a year. That cost would come from SSA's administrative budget, which is subject to appropriation action.

Miscellaneous and Technical Amendments (Title IV)

Six of the nine sections of title IV would affect direct spending or revenues; the remaining three contain technical corrections and clarifications to the Social Security Act.

Provisions Affecting Prisoners. H.R. 1180 would tighten restrictions on the payment of Social Security benefits to prisoners. Current law sets strict limits on the payment of SSI benefits to incarcerated people and milder limits on payments of OASDI. SSI recipients who are in prison for a full month—regardless of whether they are convicted—have their benefits suspended while they are incarcerated. OASDI recipients who have been convicted of an offense carrying a maximum sentence of one year or more have their benefits suspended. Those who are convicted of lesser crimes, and those who are in jail awaiting trial, may still collect OASDI benefits. Those provisions are enforced chiefly by an exchange of computerized data between SSA and the Federal Bureau of Prisons, state prisons, and some county jails. Those agreements are voluntary and, until recently, involved no payments to the institutions.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 changed that arrangement by directing SSA to pay institutions for reporting information that leads to the identification of ineligible SSI recipients. The payment is \$400 if the institution reports information within 30 days of confinement and \$200 if the report is made 30 to 90 days after confinement. The law also exempts matching agreements between SSA and correctional institutions from certain provisions of the Privacy Act.

H.R. 1180 would establish analogous arrangements for the OASDI program. It would also drop the requirement that OASDI benefits be suspended only if the maximum sentence for the offense is one year or more. (A conviction would still be required; inmates who are in jail while they await trial could continue to collect benefits. Furthermore, those whose total confinement is 30 days or fewer would be exempt.) CBO estimated the effects of this provision, like its predecessor in the welfare reform law, by analyzing data from several

sources that suggest about 4 percent to 5 percent of prisoners were receiving Social Security benefits, SSI benefits, or both before incarceration. Reports from SSA's Inspector General showed that some of those prisoners were overlooked under matching arrangements either because their institution had not signed an agreement, had not renewed it promptly, or did not submit data on schedule.

CBO estimates that, over the 2000-2009 period, the provisions of H.R. 1180 would lead to payments of \$85 million to correctional institutions out of the OASDI trust funds and benefit savings of almost \$300 million, for a net saving of about \$215 million. CBO also expects that the broader arrangement, by doubling the potential payments, would encourage more jailers to submit information accurately and promptly and would therefore lead to net savings in the SSI program of about \$85 million over the 10-year period.

Open Season for Clergy to Join Social Security. Subsection 1402(e) of the Internal Revenue Code allows certain clergy to exempt the self-employment income from their ministry from Social Security and Medicare taxes. Under current law, such an exemption is irrevocable.

Section 403 of H.R. 1180 would allow clergy who have received an exemption a two-year opportunity to revoke that exemption beginning in calendar year 2000. Similar opportunities were offered in 1978 and 1987. Based on those experiences, CBO estimates that 3,500 taxpayers would revoke their exemptions, and that the average new enrollee would have about \$20,000 of self-employment income. (Income tax revenue would decrease slightly, since a portion of payroll taxes is deductible for income tax purposes.) CBO estimates that, from 2000 through 2009, off-budget revenues would increase by \$87 million, and on-budget revenues would increase by \$10 million.

Those taxpayers who revoke their exemption would eventually receive higher Social Security benefits, but that effect would mostly occur in years beyond the 10-year estimation period. CBO estimates that outlays would increase by just \$4 million during the 2000-2009 period.

Collection of Processing Fees from Attorneys. Every year, SSA's Office of Hearings and Appeals (OHA) weighs the cases of nearly 400,000 people whose applications for DI have been denied at a lower level. (OHA also hears appeals from rejected SSI claimants and a handful of cases from Social Security's retirement and survivor programs.) OHA's administrative law judges grant benefits to about 60 percent of those claimants, two-thirds of whom are represented by an attorney. By the time the case is decided, a typical claimant is entitled to a check amounting to 12 to 24 months of retroactive benefits. When the attorney and client have consented, SSA withholds attorney fees from that lump-sum check

and remits them to the attorney. Maximum attorney fees are \$4,000, and the average is about \$2,600.

H.R. 1180 would require SSA to levy a charge for the staff time it devotes to processing attorney fees. SSA would charge 6.3 percent of the fee, or about \$165 in a typical case. SSA would begin deducting the charge in January 2000. Assuming that about 150,000 successful DI claimants are represented by attorneys each year, the charge would yield about \$25 million a year when fully effective.

Restriction on Payments for School-Based Services. H.R. 1180 contains several provisions that would introduce new requirements as to how school districts may bill Medicaid when they provide health services to Medicaid beneficiaries. CBO estimates that those provisions would lower net federal Medicaid outlays by \$70 million over the 2000-2004 period and by \$264 million over the 2000-2009 period.

Under current law, states can receive federal Medicaid reimbursement for school-based services provided to Medicaid beneficiaries and related administrative costs. There have been recent concerns that some of the reimbursement practices may be inappropriate. H.R. 1180 would: strengthen reporting requirements for school-based services; narrow the circumstances under which transportation could be reimbursed; require the Health Care Financing Administration to develop and implement a uniform methodology for states to file claims for payment of school-based administrative claims; constrain the arrangements that states may enter into with contractors; and limit the amount of federal reimbursement that may be retained by the state.

CBO expects that those provisions would lead to lower Medicaid claims in the future as some of the controversial practices are deterred. The savings would be partially offset by increased administrative costs in the short term as states implement new procedures, and by new claims from states that begin to file claims under a new uniform methodology.

Expansion of Medicaid Anti-Fraud Authority. H.R. 1180 would expand the authority of state Medicaid Fraud Control Units (MFCUs) in two ways. First, it would explicitly allow MFCUs to investigate and prosecute fraud in federal health care programs other than Medicaid if the suspected fraud is primarily related to Medicaid and the MFCU receives approval from the relevant federal agency. Funds collected as the result of such investigations would be credited to the relevant federal health care program. Second, the provision would give states the option to review complaints of abuse or neglect of patients who reside in board and care facilities.

CBO estimates that this provision would result in savings to Medicare of \$5 million a year, once it is fully phased in, because MFCUs would recover somewhat larger amounts of restitution for Medicare fraud than they do under current law. Other federal health programs would also receive more restitution, but CBO estimates these amounts to be less than \$500,000 each year. To the extent that states choose to investigate abuse and neglect in board and care facilities, MFCU expenses could be higher, but CBO expects that most of these investigations would be undertaken with current resources so that increased costs to Medicaid would be negligible.

Change in Lender Yields on Student Loans. The federal government guarantees private lenders participating in the student loan program a minimum yield on the loans they issue. When the guaranteed yield is higher than the interest rate paid by the borrower, the federal government pays the difference.

Under current law, before July 1, 2003, the guaranteed yields are based on the bond equivalency of the 91-day Treasury bill rate. For student loans, the yield is the bond equivalency of the 91-day Treasury bill rate plus 2.20 percentage points (while the borrower is in school, during the six-month grace period after he or she leaves school, and during any authorized deferment periods such as when the borrower is in graduate school or experiencing economic hardship), or 2.80 percentage points (while the borrower is repaying the loan). Lender yields on parent and consolidated loans are the bond equivalency of the 91-day Treasury bill rate plus 3.10 percentage points.

H.R. 1180 would change the yield on new loans issued between January 1, 2000, and July 1, 2003. Under this act, yields would be based on the 3-month commercial paper rate. For student loans, the yield would be the 3-month commercial paper rate plus 1.74 percentage points (while the borrower is in school, grace, or deferment) or 2.34 percentage points (while the borrower is repaying the loan). Lender yields on parent and consolidated loans would be the 3-month commercial paper rate plus 2.64 percentage points. H.R. 1180 would leave the current interest rate structure for borrowers unchanged.

Changes affecting the student loan program are assessed under the requirements of the Federal Credit Reform Act of 1990. Thus, the budget records all the costs and collections associated with a new loan on a present-value basis in the year the loan is obligated. The costs of all changes affecting outstanding loans are displayed in the year of enactment—in this case 2000.

Under the current CBO forecast of interest rates, the yields set by H.R. 1180 using the commercial paper rate would differ slightly from the yields under current law, based on the

91-day Treasury bill rate. CBO estimates that this change would have a negligible federal cost in 2000, but save \$20 million over the 2001-2003 period. Over this time period, approximately \$80 billion in new loans will be issued by private lenders.

Spending Subject to Appropriation

H.R. 1180 would also create several new programs or activities to be funded out of SSA's annual appropriations for administrative expenses (see Table 4).

New Programs. Section 101 of H.R. 1180 would create a Work Incentives Advisory Panel to advise the Secretaries of Health and Human Services (HHS), Labor, and Education, and the Commissioner of Social Security on work incentives for the disabled, and to advise SSA on implementation and evaluation of the Ticket to Work program. The panel would consist of 12 members appointed by the President and Congressional leaders. H.R. 1180 would permit the panel to hire a director and other staff and pay other necessary expenses. The panel's costs would be paid by SSA. CBO estimates that the panel would cost between \$1 million and \$2 million a year.

Section 121 would establish a community-based program, financed from SSA's appropriation for administrative costs, to disseminate information about work incentives and related issues. Grants totaling no more than \$23 million a year would be awarded competitively to community-based groups. Because this would be a new program, CBO assumes that spending would be low at first, not reaching \$23 million until the third year.

Section 122 would require the Commissioner of Social Security to make grants to the protection and advocacy (P&A) system established under part C of title I of the Developmental Disabilities Act to assist disabled people to obtain vocational rehabilitation or employment. That P&A system is currently funded by the Children and Family Services Program in the Department of HHS. The act would authorize \$7 million annually from 2000 through 2004. CBO estimates that outlays would be \$3 million in 2000, and \$6 million to \$7 million a year thereafter.

TABLE 4. SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 1180, WITH ADJUSTMENTS FOR INFLATION

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
New Programs					
Work Incentives Advisory Panel					
Estimated Authorization Level	1	1	2	2	2
Estimated Outlays	1	1	1	2	2
Work Incentives Outreach					
Authorization Level	23	23	23	23	23
Estimated Outlays	2	14	23	23	23
State Grants for Work Incentives Assistance					
Authorization Level	7	7	7	7	7
Estimated Outlays	3	6	7	7	7
Costs from Additional Workloads					
SSA Administrative Costs					
Estimated Authorization Level	10	18	57	25	32
Estimated Outlays	10	18	24	30	38
Total					
Spending Subject to Appropriation					
Estimated Authorization Level	41	50	89	57	63
Estimated Outlays	17	40	56	62	69

Note: Components may not sum to totals due to rounding.

Costs from Additional Workloads. Although they do not explicitly authorize future appropriations, several other provisions of H.R. 1180 would affect SSA's workload and thus its need for annual appropriations. The Ticket to Work program (section 101) would require significant planning and oversight by SSA staff. Also, while the payments to VR providers under the new tickets program would be mandatory (that is, not subject to annual appropriation), SSA's payment to the program manager—a contractor hired to handle recruitment and oversight of providers, registration of tickets, information and publicity, and the certification of milestone and outcome payments—would come from its administrative budget. Section 121 would direct SSA to establish a special corps of work incentive

specialists to deal with questions from applicants, beneficiaries, and the community-based organizations funded under that section. The costs of conducting and evaluating the \$1-for-\$2 demonstration projects proposed in section 302 would also come from SSA's administrative budget. Enforcement of the tougher restrictions on prisoners in section 402 would require SSA staff time, because suspension of benefits requires careful verification. Partly offsetting these extra costs, SSA would no longer be required to do work CDRs under section 111. CBO estimates that these effects on SSA's workload would, on balance, cost the agency about \$120 million over the 2000-2004 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in Table 5. For the purposes of enforcing pay-as-you-go procedures, only the on-budget effects in the budget year and the succeeding four years are counted.

TABLE 5. SUMMARY OF H.R. 1180's ON-BUDGET EFFECTS ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	8	4	12	38	67	88	112	123	130	141
Changes in receipts	1	1	1	1	1	1	1	1	1	1

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that relate to the Old-Age, Survivors, and Disability Insurance programs under title II of the Social Security Act, including tax provisions in the Internal Revenue Code. CBO has determined that the provisions of H.R. 1180 either fall within that exclusion or contain no intergovernmental mandates.

Optional Medicaid and health program expansions would result in greater state spending, but federal grants also would provide new funding for specific programs. Requirements on how

school districts bill Medicaid for health services would result in a net decrease in Medicaid funding for those purposes.

Title II contains an option for states to extend Medicaid coverage to certain individuals who lose their eligibility for DI or SSI following a CDR. CBO estimates that state costs attributable to this optional expansion during the first five years would total about \$5 million. That amount is net of premiums or other fees states would be permitted to charge. States also would be eligible for grants to develop and operate programs to support working individuals with disabilities if the state expands its Medicaid program to cover certain workers with disabilities whose incomes are under 250 percent of poverty (the BBA option in current law). CBO estimates that states would receive a total of \$19 million during the first five years the program is in effect.

States that elect to provide benefits under the BBA option would also be eligible for demonstration projects that would provide Medicaid to working individuals with physical or mental impairments who, without such services, could become blind or disabled. CBO estimates that state costs for these demonstration projects would total about \$40 million over the 2000-2004 period.

The grant program and the demonstration option would encourage states to expand their Medicaid programs and offer benefits to working individuals with disabilities under the BBA option. Because of the resulting increase in enrollment, CBO estimates that state Medicaid costs would increase by \$17 million over the 2000-2004 period.

Finally, new requirements on how school districts may bill Medicaid for health services would result in a decrease in federal Medicaid funding of \$70 million over the 2000-2004 period, as described in the Basis of Estimate section.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

Provisions of the act not covered by UMRA's exclusions include one private-sector mandate on insurers who provide medigap coverage to Medicare beneficiaries who are eligible because of disability. It would require such insurers to reinstate coverage that disabled beneficiaries had previously dropped because they had coverage under a group health plan, if the beneficiaries lose that group coverage and request reinstatement within 90 days of that loss. Because of restrictions on the premiums that could be charged for reinstated coverage, this provision could impose costs that insurers might not immediately recover from premiums. However, because of the small number of beneficiaries this provision would

affect, any costs imposed on medigap insurers would be well below the threshold specified in UMRA (\$100 million in 1996, adjusted annually for inflation).

PREVIOUS CBO ESTIMATES

House passage of H.R. 1180 on October 19 marks the latest action this year on bills intended to encourage disabled people to work. In June, the Senate passed its version of this legislation, S. 331.¹ The principal differences between the two acts include: a later effective date for the ban on work CDRs in the House act; a more limited (six-year) extension of Medicare for former DI beneficiaries in the House act, but with a longer enrollment period (S. 331, in contrast, would extend Medicare indefinitely but only for those who qualify in the next six years); more limited Medicaid expansions in title II of the House-passed act, compared with analogous provisions in S. 331; and additional savings provisions in title IV of H.R. 1180, including stiffer limitations on Social Security benefits to prisoners and new provisions regarding attorney fees, school-based Medicaid services, Medicaid anti-fraud units, and the student loan program.

CBO estimated that the effects of S. 331, as passed by the Senate, on direct spending and revenues would cost \$1.5 billion over the 2000-2009 period. H.R. 1180 would cost substantially less. Table 6 shows the provisions that account for that difference.

On October 14, the House Committee on Ways and Means ordered reported H.R. 3070, the Ticket to Work and Work Incentives Improvement Act of 1999.² The bill that passed the House five days later, however, differed in some key respects. Notably, the provision allowing states to liberalize income and resource limits in the Medicaid buy-in program was dropped. In addition, two new grant programs—the grants to states for infrastructure to aid the working disabled and for health care demonstration projects—were made mandatory, rather than subject to future appropriation action. A new provision on student loans was added. Table 7 itemizes the differences in the estimated costs of H.R. 3070 and H.R. 1180.

¹For an estimate of the budgetary effects of S. 331 as passed, see the CBO estimate dated July 6, 1999 (available on www.cbo.gov).

²See CBO cost estimate dated October 15, 1999, in House Report 106-393 (also available on www.cbo.gov).

TABLE 6. DIFFERENCES BETWEEN CBO ESTIMATES OF DIRECT SPENDING AND REVENUE PROVISIONS OF S. 331 AS PASSED BY THE SENATE AND H.R. 1180 AS PASSED BY THE HOUSE

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
S. 331 as Passed										
Outlays	50	117	174	201	227	193	176	167	166	162
Revenues	3	8	10	10	10	11	11	11	11	12
Surplus	-47	-108	-164	-191	-217	-182	-165	-156	-155	-150
Changes from S. 331 as Passed										
Outlays										
Ban on Work CDRs for Certain DI Beneficiaries ^b										
Disability Insurance	-5	-15	-20	-15	-5	-5	0	0	0	0
Medicare (net)	-2	-6	-7	-5	-3	a	0	0	0	0
State Option to Liberalize Income and Resource Limits for Medicaid Buy-in ^e										
Medicaid	-15	-16	-18	-20	-22	-24	-26	-29	-32	-35
State Option to Continue Medicaid Buy-in After a CDR ^d										
Medicaid	a	-1	-2	-2	-3	-3	-4	-4	-5	-6
Extension of Medicare for Former DI Beneficiaries ^e										
Medicare (net)	-10	-19	-19	-20	-21	-21	-6	17	35	62
Infrastructure Grants to States ^d										
HHS Mandatory Grants	-3	-4	-3	-4	-5	-5	-6	-6	-7	-7
Health Care Demonstration Project ^f										
HHS Mandatory Grants	-6	-40	-65	-64	-64	-10	0	0	0	0
Medicaid Enrollment Interaction ^d										
Medicaid	4	4	5	5	6	6	7	7	8	9
Extension of DI Demonstration Project Authority ^g										
Disability Insurance	0	0	0	0	0	-3	-5	-5	-5	-5
Provisions Affecting Prisoners ^h										
OASDI	-2	-9	-10	-11	-12	-10	-10	-10	-10	-10

Continued

TABLE 6. Continued

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Collection of Processing Fees from Attorneys ⁱ										
Disability Insurance	-15	-25	-25	-25	-25	-25	-25	-25	-25	-25
Restriction on Payments for School-based Medicaid ⁱ										
Medicaid	-3	-11	-16	-18	-22	-27	-32	-38	-45	-52
Expansion of Medicaid Anti-Fraud Authority ⁱ										
Medicare	0	-3	-5	-5	-5	-5	-5	-5	-5	-5
Change in Lender Yields on Student Loans ⁱ										
Student loans	a	-5	-10	-5	0	0	0	0	0	0
Total	-58	-149	-195	-189	-180	-131	-112	-98	-91	-74

H.R. 1180 as Passed

Outlays	-8	-32	-21	13	47	61	64	70	76	88
Revenues	3	8	10	10	10	11	11	11	11	12
Surplus	11	41	31	-3	-37	-50	-54	-59	-65	-76

- Notes: Components may not sum to totals due to rounding.
OASDI = Old-Age, Survivors, and Disability Insurance, DI=Disability Insurance, CDR= Continuing Disability Review, EPE=extended period of eligibility, HHS=Department of Health and Human Services
- Less than \$500,000.
 - Senate would end such CDRs immediately; House would delay until January 2003.
 - Provision dropped by House.
 - Includes interaction with other Medicaid changes.
 - Senate would give indefinite coverage for those who exhaust current-law EPE in next six years (2000 through 2005). House would give an extra six years of coverage to all who exhaust EPE effective in October 2000 (fiscal year 2001).
 - Senate and House differ on funding levels (\$305 million versus \$56 million over five years, respectively).
 - Senate would extend demonstration authority permanently, House for five years.
 - Senate would suspend Social Security benefits for convicted prisoners who are incarcerated throughout a month; House would suspend benefits to those imprisoned during a month.
 - New provision.

TABLE 7. DIFFERENCES BETWEEN CBO ESTIMATES OF DIRECT SPENDING AND REVENUE PROVISIONS OF H.R. 3070 AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS AND H.R. 1180 AS PASSED BY THE HOUSE

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
H.R. 3070 as Reported										
Outlays	-4	-28	-11	18	49	72	82	90	99	113
Revenues	3	8	10	10	10	11	11	11	11	12
Surplus	7	37	21	-8	-39	-61	-72	-79	-88	-102
Changes from H.R. 3070 as Reported										
Outlays										
State Option to Liberalize Income and Resource Limits for Medicaid Buy-in ^b										
Medicaid	-15	-16	-18	-20	-22	-24	-26	-29	-32	-35
State Option to Continue Medicaid Buy-in After a CDR										
Medicaid ^c	a	-1	-2	-2	-3	-3	-4	-4	-5	-6
Infrastructure Grants to States ^{c,d}										
HHS Mandatory Grants	3	3	4	4	4	5	5	6	6	7
Health Care Demonstration Project ^{d,e}										
HHS Mandatory Grants	5	11	11	12	12	5	0	0	0	0
Medicaid Enrollment Interaction ^c										
Medicaid	4	4	5	5	6	6	7	7	8	9
Change in Lender Yields on Student Loans ^f										
Student Loans	a	-5	-10	-5	0	0	0	0	0	0
Total	-4	-3	-10	-6	-2	-11	-18	-20	-23	-25
H.R. 1180 as Passed										
Outlays	-8	-32	-21	13	47	61	64	70	76	88
Revenues	3	8	10	10	10	11	11	11	11	12
Surplus	11	41	31	-3	-37	-50	-54	-59	-65	-76

Notes: Components may not sum to totals due to rounding.
 CDR = Continuing Disability Review, HHS=Department of Health and Human Services
 a. Less than \$500,000.
 b. Provision dropped.
 c. Reflects interactions with other changes to Title II.
 d. Would have been subject to appropriation in H.R. 3070 as reported.
 e. Funding level changed to \$56 million over five years.
 f. New provision.

ESTIMATE PREPARED BY:

Federal Costs: Kathy Ruffing (DI and SSI), Jeanne De Sa and Dorothy Rosenbaum (Medicare and Medicaid), Noah Meyerson (Social Security receipts), and Deborah Kalcevic (for student loans)

Impact on State, Local, and Tribal Governments: Leo Lex

Impact on the Private Sector: Bruce Vavrichek

ESTIMATE APPROVED BY:

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