CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

November 6, 2000

H.R. 2842
Federal Employees Health Benefits Children's Equity Act of 2000

As cleared by the Congress on October 13, 2000, and signed by the President on October 30, 2000

SUMMARY

H.R. 2842 (enacted as Public Law 106-394) authorizes the mandatory enrollment into family plan coverage and the deduction of premium contributions from the salaries of employees under child support orders who otherwise would not participate in the Federal Employees Health Benefit (FEHB) program or employees who elect self-only coverage, unless the employee provides documentation that insurance is provided from another source or the support order has ended. Under prior law, the FEHB program had no authority to enforce compliance with a child support order to provide health insurance for an employee's children.

CBO estimates that the act will generate mandatory savings by reducing federal outlays for Medicaid and the State Children's Health Insurance Program (SCHIP), but that such savings will be partially offset by increased government contributions to FEHB for federal retirees. In 2001, the net savings will amount to about $1 million and about $13 million over the 2001-2005 period. Federal savings for Medicaid and SCHIP will be about $16 million over the same period. The mandatory costs to FEHB will be less than $500,000 in 2001, and about $4 million over the 2001-2005 period. Direct spending also will increase for the health benefits of postal employees and annuitants subject to the act's provisions, but these costs are classified as off-budget and are not subject to pay-as-you-go procedures.

The act also modifies the earnings test that applies to supplemental benefits paid by the Federal Employees' Retirement System (FERS), but this provision will not have significant budgetary effects over the 2001-2005 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated effects of H.R. 2842 on direct spending are shown in the following table. The costs of this legislation fall within budget functions 550 (health) and 600 (income security).

For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	-1	-2	-3	-4	-3	-4	-4	-4	-4	-4
Changes in receipts	Not applicable									

BASIS OF ESTIMATE

CBO's estimate of the federal costs of H.R. 2842 is based on assumptions about the number of employees and retirees who will be required to obtain family coverage but who do not already do so, and the federal share of FEHB premiums for the additional family coverage. In addition, CBO estimated savings for Medicaid and SCHIP based on estimates about the number of children who will be covered by FEHB under the act but were likely to be covered by those programs under prior law. Finally, savings estimated from the FERS annuity supplement policy change is based on the number of FERS retirees subject to the earnings test and the increased recoveries that can be expected from applying the tests over a longer period.

Health Care Costs

According to the Office of Personnel Management (OPM), costs incurred by FEHB plans for single-parent families average two-thirds of the cost for two-parent families. Based on Census Bureau survey data adjusted for the age and sex distribution of the federal employee population, CBO estimates that about 17,500 federal employees and postal workers are subject to child support orders providing mandatory health insurance coverage for their children. For the purposes of this estimate, we assume that 90 percent of the employees brought into compliance with medical support orders under H.R. 2842 had self-only coverage under prior law. For those employees, the estimated increase in federal spending will be about $900 per family policy in 2001, which is the difference between the federal share of the annual premium for self-only coverage and two-thirds of the federal share of the premium for family coverage, on average.

CBO assumes that the remaining 10 percent of the affected employees who will be brought into compliance with medical support orders currently have no FEHB coverage. For those employees, the estimated effect on federal spending in 2001 will be about $3,500 per family policy, which is two-thirds of the federal share of the average annual premium for family coverage.

A federal employee will be subject to the mandatory family enrollment until a support order expires. Some of the employees affected by H.R. 2842 will be required to cover their children after they retire from active federal employment, shifting the classification of costs from discretionary to mandatory spending. However, there are fewer support orders for older employees, and most children covered under such orders are likely to be close to reaching adulthood. Based on the rate of retirement of federal employees and assumptions about the rate of expiration of support orders, CBO estimates that the increase in direct spending by FEHB for payments to cover affected retirees will be negligible in 2001, but will total $4 million over the 2001-2005 period.

The act will reduce spending by Medicaid and SCHIP. CBO estimates that 15 percent of the employees and postal workers affected by mandatory coverage have children who will enroll in those programs if medical support orders are not enforced. (That is slightly lower than the estimated rate for the general population, reflecting an assumption that the children of federal workers are somewhat less likely to have low-enough incomes to qualify for such programs.) CBO estimates the Medicaid savings based on the average costs per child, multiplied by an average of 1.5 children covered under each support order. After accounting for anticipated inflation, the estimated federal share of Medicaid savings is expected to be $1 million in 2001 and $16 million over the 2001-2005 period. CBO estimates that SCHIP savings will be smaller—less than $500,000 annually.

Modify Earnings Test for FERS Annuity Supplement

The Federal Employees' Retirement System pays supplemental benefits to certain nondisabled retirees until they reach age 62 and become eligible for Social Security. These supplemental benefits are subject to an earnings test. Individuals with earnings that exceed a certain level in a calendar year (about $10,000 in 2000) have their supplemental benefits reduced during the 12-month period starting on January 1 of the following year. H.R. 2842 will make reductions from the earnings test effective for the 12-month period starting on July 1 of the following year.

Currently, OPM pays unreduced supplemental benefits for the first two or three months of each year until it receives the wage information needed to administer the earnings test. This inevitably leads to overpayments, which OPM does not try to recover. The act's provisions will increase spending on supplemental benefits in 2001 (a one-time cost of moving the effective date to July 1) before yielding savings in later years by eliminating such overpayments. According to OPM, about 700 retirees currently have their supplemental benefits reduced because of the earnings test. (This figure will rise in the future as the number of FERS retirees grows.) CBO estimates that the earnings test reduces their supplemental benefits by 50 percent—a reduction of about $100 per month for current retirees. CBO estimates that H.R. 2842 will increase spending on supplemental benefits by about $240,000 in 2001 and reduce spending in later years. Annual savings will grow slowly and reach $1 million in 2010.

ESTIMATE PREPARED BY:

FEHB—Charles L. Betley
Child Support—Sheila Dacey
Other Costs—Eric Rollins

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis