



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

January 6, 2006

H.R. 4579

An act to amend title I of the Employee Retirement Income Security Act of 1974, title XXVII of the Public Health Service Act, and the Internal Revenue Code of 1986 to extend by one year provisions requiring parity in the application of certain limits to mental health benefits

*As cleared by the Congress on December 22, 2005,
and signed by the President on December 30, 2005*

SUMMARY

H.R. 4579, enacted as Public Law 109-151, extends for one year rules regarding parity of mental health benefits with medical and surgical benefits. The Mental Health Parity Act of 1996 (P.L. 104-204) became law on September 26, 1996, with an original expiration date of September 30, 2001, and has been extended several times. The Taxpayer Relief Act of 1997 added an excise tax that is levied if health plans impose certain annual and lifetime limits on mental health benefits that they do not also impose on medical and surgical benefits.

The Congressional Budget Office (CBO) estimates that H.R. 4579 will slightly raise the costs of employer-sponsored health benefits, thus shifting some employee compensation from taxable wages to nontaxable employer-paid premiums. As a result, the act will reduce federal revenues by \$58 million over the 2006-2008 period. Most of the estimated reduction in revenues, \$45 million, occurs in 2007. These estimates include reductions in off-budget receipts from Social Security payroll taxes of \$17 million over the 2006-2008 period. CBO estimates that H.R. 4579 will not affect direct spending.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4579 is shown in the following table.

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN REVENUES										
Estimated Revenues	-3	-45	-10	0	0	0	0	0	0	0
On-Budget	-2	-32	-7	0	0	0	0	0	0	0
Off-Budget	-1	-14	-3	0	0	0	0	0	0	0

Note: Numbers may not sum to totals because of rounding.

SOURCE: Congressional Budget Office.

BASIS OF ESTIMATE

H.R. 4579 extends for one year the requirement that group health plans provide for parity in certain benefit limits applied to mental health services and medical and surgical services. Plans that offer mental health benefits are not allowed to impose annual or lifetime dollar limits on mental health benefits that are not also imposed on medical and surgical benefits. If a plan does not comply with such mental health parity requirements, an excise tax may be levied on the employer sponsor of the plan. Plans are under no obligation to offer mental health benefits, however. The legislation also extends the excise tax through December 31, 2006.

CBO estimates that H.R. 4579 will reduce governmental receipts by \$58 million over the 2006-2008 period. These estimates include reductions in off-budget receipts from Social Security payroll taxes of \$17 million over the same period. CBO assumes that plans will generally comply with the requirements to avoid paying the tax. Therefore, the provisions will result in very slightly higher premiums for employer-sponsored health benefits (an increase of less than one-tenth of a percent). The higher premiums, in turn, will result in more of an employee's compensation being received in the form of nontaxable employer-paid premiums, and less in the form of taxable wages. That shift will reduce receipts from individual income taxes and payroll taxes, including off-budget receipts from Social Security taxes.

The Joint Committee on Taxation estimates that any revenue effect from the excise tax penalty will be negligible.

ESTIMATE PREPARED BY: Emily Schlect

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis