CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 6, 2000

H.R. 4040
Long-Term Care Security Act

As ordered reported by the House Committee on Government Reform on March 30, 2000

SUMMARY

H.R. 4040 would require the Office of Personnel Management (OPM) to develop and administer a long-term care insurance program for federal employees, members of the uniformed services, retirees from federal or military service, and specified relatives of the primary eligible groups. Because the federal government would not contribute to the enrollees' premiums, and the insurer or insurers would be required to reimburse OPM for its expenses in setting up and administering the plan, net federal outlays would be zero over the long run.

However, the expenses that OPM would incur before collecting premiums from enrollees and reimbursement from the insurers would be funded by outlays from the federal government's Employees' Life Insurance Fund. CBO estimates that such outlays would increase direct spending by $3 million during fiscal year 2001 and $18 million during 2002, while receipts would exceed outlays by $2 million in 2003 and by $4 million per year in 2004 and 2005. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

H.R. 4040 provides that the contracts for long-term care offered under the bill would supersede and preempt state and local laws governing long-term care insurance or contracts. This preemption would be an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA). The bill does not contain any private-sector mandates.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4040 is shown in the following table. The costs of this legislation fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars				
	2001	2002	2003	2004	2005
Changes in Direct Spending					
Estimated Budget Authority	0	0	0	0	0
Estimated Outlays	3	18	-2	-4	-4

BASIS OF ESTIMATE

H.R. 4040 specifies that eligible individuals who opt to purchase long-term care insurance would be responsible for 100 percent of the cost of the premiums, so that the federal government would not incur net costs over the long term. However, because OPM would expend funds for start-up and administrative expenses before enrollees' premiums are received, the agency would incur outlays in 2001 and 2002, which would be direct spending from the Employees' Life Insurance Fund.

Upon enactment of H.R. 4040, OPM would be allowed 18 months to set up the long-term care insurance program. CBO assumes that, if the bill were enacted in fiscal year 2000, OPM would begin in 2001 to negotiate with one or more insurance carriers to establish the benefits to be provided under the plan and the premiums to be charged. Marketing the chosen plan or plans would begin in 2002. The program would take effect in 2003, and premiums would begin to be deducted from enrollees' salary or retirement payments. The federal government would not contribute to the enrollees' premiums, and the insurer or insurers would be required to reimburse OPM for the agency's expenses in setting up and administering the plan.

The expenses that OPM would incur before being able to collect premiums from enrollees and reimbursement from the insurers would be paid from the Employees' Life Insurance Fund. The only limitation on these outlays are the bill's requirement that they be "reasonable." Based on information from OPM and the costs of administering other benefit programs, CBO estimates that start-up costs over three fiscal years would be about $23 million. A significant portion of the costs would be for education and outreach—especially for printing and mailing brochures to inform potential participants of their eligibility and options under the plan. About 10 percent of the estimated costs represents expenses for drafting plan specifications, evaluating contract proposals, negotiating with contractors, and setting up systems for tracking enrollment and premium deductions.

Expenditures for education and outreach would be significant because long-term care insurance is a new type of benefit, unlike pensions and health insurance, which are already established and familiar. Furthermore, OPM would have to contact active and retired military personnel, whose benefits are ordinarily administered by the Department of Defense. More intensive outreach efforts may attract a larger pool of participants, which would help to assure the plan's financial solvency by broadening the distribution of people who pay premiums and including more enrollees with lower risk of needing services.

Expenses of $3 million in 2001 would be primarily for developing plans, while education and outreach expenses are projected to increase outlays to $18 million in 2002. Start-up expenses for administrative costs and processing enrollment in the first year of the plan's operation are estimated to amount to $2 million in 2003. Once the insurance program is established, CBO expects that, beginning in 2003, OPM would incur costs of about $1 million annually to administer it.

Those ongoing expenses are expected to remain steady unless another open season is held. The bill directs OPM "periodically" to conduct open enrollment seasons, during which administrative expenses would be expected to increase. However, frequent open seasons would create greater opportunities for risk selection, as low-risk individuals could defer joining the plan until they perceive that their risk of needing long-term care has changed. The bill would make it harder for people to elect coverage only when their risk changes by authorizing the insurance plans to apply underwriting standards for individuals who defer joining at their first opportunity. Nevertheless, CBO expects that OPM would allow open seasons infrequently. If open seasons occur at the same intervals as the length of the contract specified in the bill, or once every seven years, the next increase in outlays for a new open season would occur in 2010.

CBO expects that reimbursement of the $23 million in start-up costs, including interest paid at the current rate for Treasury bills, and for ongoing administrative expenses, would be spread over the duration of the seven-year contract specified in the legislation. Those payments from insurers would result in offsetting collections of $5 million a year to the Life Insurance Fund beginning in 2003. Since payments from the contracting insurers would lag outlays, net outlays over the 2001-2005 period would be about $11 million.

H.R. 4040 specifies that the government collect premiums from most enrollees by withholding a portion of their pay and, in turn, transfer those amounts to the insurance companies. These transactions would also be direct spending but would have no significant net effect on the budget.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of 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 the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, 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	3	18	-2	-4	-4	-4	-4	-4	-4	3
Change in receipts	Not applicable									

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 4040 provides that the contracts for long-term care offered under the bill would supersede and preempt state and local laws governing long-term care insurance or contracts. This preemption would be an intergovernmental mandate as defined in UMRA. By preempting those state and local laws, the bill would enable the federal government to enter into contracts for long-term care insurance without meeting the various state and local requirements and limitations on such coverage. CBO estimates that the limitation on regulatory and oversight authority would result in no costs to state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill does not contain private-sector mandates as defined in UMRA.

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