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A COMPARISON OF THE BUDGETARY EFFECTS FOR TWO PROPOSALS TO EXTEND HEALTH CARE BENEFITS TO RETIREES OF THE UNIFORMED SERVICES WHO ARE AGE 65 AND OLDER

This memorandum compares the estimated costs of two health care proposals considered during deliberations of the National Defense Authorization Act for Fiscal Year 2001. Both proposals would increase medical benefits, including prescription drug coverage, for retirees of the uniformed services who are age 65 and older. CBO estimates that both proposals would significantly increase spending for such health care. The total estimated costs of the two proposals are similar, but their different types of funding would make their budgetary effects appear very different.

The first proposal is a modification of section 701 of the National Defense Authorization Act for Fiscal Year 2001, as passed by the Senate. Most of the costs of implementing this proposal would be subject to the appropriation of the necessary funds.

The second proposal is contained in sections 711, 712, and 713 of the conference agreement to H.R. 4205, the National Defense Authorization Act for Fiscal Year 2001.[1] Under that agreement, retirees would have the same benefits as in the first proposal, but those benefits would be an entitlement. As a result, most of the costs of the second proposal would constitute new direct spending.

DESCRIPTION OF THE TWO PROPOSALS AND THEIR ESTIMATED COSTS

Section 701, as passed by the Senate, would authorize a two-year program to allow all military beneficiaries age 65 and over to use the Department of Defense's (DoD's) Tricare insurance under certain conditions. Additionally, section 701 would extend the Medicare subvention demonstration program through the end of calendar year 2001. The first proposal would modify the Senate-passed provision to authorize the use of Tricare insurance permanently rather than for just two years. We refer to this proposal as the "modified Senate" proposal. CBO estimates that this proposal would increase direct spending by $20 million in 2001 and by $3.3 billion over the 2001-2010 period. In addition,

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1. See House Report 106-945.

discretionary spending would increase by $34.5 billion during that 10-year period, as shown in Table 1, assuming appropriation of the necessary amounts.

TABLE 1. ESTIMATED COSTS OF TWO PROPOSALS AFFECTING HEALTH CARE BENEFITS FOR MILITARY RETIREES AGE 65 AND OLDER[a] (By fiscal year, in millions of dollars)

MODIFIED SENATE PROPOSAL

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
			Changes in Direct Spending							
Estimated Budget Authority	20	146	300	325	354	371	396	422	449	479
Estimated Outlays	20	146	300	325	354	371	396	422	449	479
			Changes in Spending Subject to Appropriation							
Estimated Authorization Level	0	1,797	3,604	3,551	3,803	4,055	4,340	4,632	4,953	5,309
Estimated Outlays	0	1,447	3,160	3,428	3,700	3,971	4,248	4,535	4,848	5,194

CONFERENCE AGREEMENT (H.R. 4205)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
			Changes in Direct Spending							
Estimated Budget Authority	23	150	5,703	6,183	6,679	7,159	7,662	8,182	8,753	9,383
Estimated Outlays	23	150	5,703	6,183	6,679	7,159	7,662	8,182	8,753	9,383
			Changes in Spending Subject to Appropriation							
Estimated Authorization Level	248	2,052	1,070	1,152	1,077	993	893	782	655	517
Estimated Outlays	200	1,688	1,145	1,205	1,133	1,051	954	845	725	593
Memorandum:										
Intragovernmental Collections from DoD Accrual Payments										
Estimated Authorization Level	0	0	-3,184	-3,414	-3,519	-3,612	-3,698	-3,777	-3,867	-3,966
Estimated Outlays	0	0	-3,184	-3,414	-3,519	-3,612	-3,698	-3,777	-3,867	-3,966

a. These proposals also would affect benefits for retirees from the Coast Guard, the Public Health Service, and the National Oceanic and Atmospheric Administration.

Under the second proposal, which is contained in the conference agreement for H.R. 4205, new and existing medical benefits to beneficiaries age 65 and older provided by DoD would become an entitlement. (Under current law, the Congress must appropriate funds for all health care benefits.) A newly created trust fund would automatically provide spending authority for those benefits without further Congressional action, and would establish accrual accounting for intragovernmental payments into the new trust fund.

CBO estimates that under the conference agreement direct spending would increase by $23 million in 2001 and about $60 billion over the 2001-2010 period. Spending subject to appropriation would increase by about $9.5 billion over the 2001-2010 period; this includes the accrual payments made to the new trust fund and the discretionary savings for current costs that would become direct spending. (Payments to the trust fund would total $29 billion and would represent a transfer of funds from one government account to another that would not affect net federal outlays. The intragovernmental collections of those accrual payments are shown in the "memorandum" line in Table 1.)

The modified Senate proposal would mainly rely on discretionary appropriations to provide benefits. The ultimate impact on aggregate federal spending would depend on whether total appropriations are increased to cover the new costs or whether funding for other programs is reduced to accommodate some or part of the new spending for military health care.

In contrast, the conference proposal would create a mandatory spending program that would automatically fund both existing and new benefits. Thus, this proposal would directly increase federal spending because it would immediately obligate the federal government to make payments in 2003 and each year thereafter. Furthermore, by making the benefits an entitlement, DoD would face new incentives that would likely increase the level of care it provides to beneficiaries. CBO estimates that would increase costs to the federal government over the 2001-2010 period by roughly $2.6 billion above the estimated spending for implementing the modified Senate proposal.

BACKGROUND

The Department of Defense provides health care to members of the uniformed services on active duty and their dependents. When personnel on active duty retire they are eligible to receive care from DoD, as are their dependents. Under current law, military retirees under the age of 65 are eligible to enroll in Tricare Prime or use Tricare Standard or Extra. Tricare Prime is DoD's insurance program that functions like a health maintenance organization and most health care received under this option is received at a military treatment facility (MTF). Tricare Standard and Extra are traditional fee-for-service and preferred-provider-option plans. Those who use Tricare Standard or Extra may also seek care at MTFs on a space-

available basis. Once retirees or their dependents turn age 65, they are eligible for Medicare and no longer eligible to use any of the insurance plans, except for a few demonstration programs, though they may continue to seek care at an MTF when space is available. The same eligibility rules apply to survivors, who are primarily widows and widowers.

Under current law, the Congress appropriates funding each year to pay for the cost of providing the medical benefits to active-duty personnel and military retirees. This annual appropriation covers the care at MTFs as well as the cost of providing Tricare insurance. In fiscal year 2000, the Congress appropriated about $11.5 billion for health care services. Additionally, DoD estimates that the cost of doctors, nurses, and other staff in 2000 was more than $5.5 billion–also paid from appropriated funds. Thus total discretionary costs for DoD health care in fiscal year 2000 were almost $17 billion. CBO estimates that DoD spends about $1.5 billion to provide health care at MTFs for military retirees age 65 and over.

Under current law, DoD cannot bill Medicare for the cost of providing health care to those beneficiaries over age 64 except in a demonstration project. The Congress authorized a demonstration project to operate at up to six sites beginning in January 1998 and ending in December 2000. Under that demonstration, DoD provides care to Medicare-eligible beneficiaries and is reimbursed under certain conditions by the Health Care Financing Administration (HCFA), which administers Medicare. The most important condition is the requirement that DoD maintain a level of effort with respect to the care it already provides to beneficiaries age 65 and over. Any additional care is reimbursable by HCFA up to a cap set in law. This care and reimbursement procedure is known as Medicare subvention. To date, however, HCFA has not reimbursed DoD for any care provided under this program because DoD has not met its required level of effort.

ESTIMATED COSTS OF THE TWO PROPOSALS

The two proposals would provide the same types of health care benefits and have the same population of beneficiaries. As a result, their estimated costs are similar in aggregate dollar levels. Because the benefits would be provided in different ways, however, the resulting effects on direct spending and discretionary spending are very different. In addition, CBO estimates that total costs would be somewhat higher under the conference agreement because the entitlement authority provided by that proposal would probably lead to a greater use of the offered health care services and because a prescription drug benefit would become available six months earlier than under the modified Senate proposal.

Costs Common to Both Proposals

Tricare for beneficiaries age 65 and over. Under the modified Senate proposal, eligibility for Tricare benefits (including prescription drug coverage) would begin on October 1, 2001. The conference agreement, on the other hand, would provide the same basic benefits but would begin the prescription drug benefit six months earlier than the modified Senate proposal, increasing the relative cost of the conference agreement.

CBO estimates that insurance coverage under the modified Senate proposal would cost $11.7 billion over the 2001-2005 period and $34.5 billion over the 2001-2010 period, assuming appropriation of the necessary funds. Under the conference agreement, insurance coverage would cost $12.2 billion over the 2001-2005 period and $35 billion over the 2001-2010 period; and that spending would not be subject to appropriation action.

According to data from DoD, about 1.5 million beneficiaries, including retirees and dependents, are age 65 or older. About 350,000 of those beneficiaries currently use MTFs on a full-time equivalent basis, which leaves about 1.1 million who do not rely on DoD for their health care. Both proposals would allow beneficiaries to use Tricare as a Medicare supplement with no enrollment cost or fee. Because this insurance would not cost beneficiaries any out-of-pocket premiums, CBO estimates that about 90 percent of those who do not currently use MTFs would use Tricare. In 2002, the first year of eligibility, CBO estimates that providing this insurance coverage would cost about $2,800 per person.

Retirees of the Other Uniformed Services. Both proposals apply to DoD and other uniformed services. The uniformed services include all branches of the military, the Coast Guard, and uniformed members of the Public Health Service and the National Oceanographic and Atmospheric Administration (NOAA). Thus, the proposal to open Tricare to beneficiaries age 65 and over also affects retired members of the Coast Guard and retired uniformed members of the Public Health Service and NOAA. Health care spending for these retirees is currently considered direct spending. The increase in spending from both proposals also would be direct spending. CBO estimates that providing these benefits to retirees of the Coast Guard, Public Health Service, and NOAA under the modified Senate proposal would raise direct spending by $178 million over the 2001-2005 period and $519 million over the 2001-2010 period. Under the conference agreement those benefits would cost $185 million over the 2001-2005 period and $526 million over the 2001-2010 period.

Increased Medicare Use. Allowing beneficiaries the opportunity to use Tricare insurance would also increase costs to the Medicare program. This increase would stem from increased use of health care by those individuals for whom Tricare provides better insurance than they currently receive. CBO estimates that both proposals would increase Medicare costs by $939 million over the next five years and by $2.7 billion over the first 10 years.

Because medicare does not provide a prescription drug benefit, these costs are not affected by the different start dates.

Retirees enrolled in Medicare who do not have a medigap plan or employer-sponsored insurance are likely to increase their use of health care, once they receive supplemental insurance. CBO estimates that this group makes up roughly 13 percent of beneficiaries who are over the age of 64 and who do not currently use MTFs for their medical care. The estimate is based on the *1997 Health Care Survey of DoD Beneficiaries*, which provides self-reported data on private insurance coverage. Although Medicare is currently the primary payer for these people, it would have to pay more because better insurance encourages more use of health care services. Using data from published research, CBO estimates that Medicare costs for these individuals would rise by about 25 percent as they gain better coverage.

Medicare Subvention. Extending the Medicare subvention demonstration project in any form would increase costs to the Medicare program. Both proposals would extend Medicare subvention by one year and CBO estimates that would cost a total of $28 million.

In the current subvention demonstration project, enrolled retirees use substantially more care than civilian retirees enrolled in Medicare managed care plans. Because those enrollees have a high priority for care in MTFs, Medicare-eligible beneficiaries who now receive space-available care at MTFs and choose not to enroll in the subvention program would not be able to use the MTFs as frequently as they otherwise would. Instead, they would obtain more of their care in the private sector, thus raising costs for the Medicare program because Medicare would be paying for some services that would otherwise be provided at MTFs.

Cost of the Modified Senate Proposal

As shown in Table 2, the modified Senate proposal would increase direct spending and spending subject to appropriation, with the bulk of these increases falling in the discretionary category.

Direct Spending. CBO estimates that the modified Senate proposal would increase direct spending by $1.1 billion over the 2001-2005 period and by $3.3 billion over the 2001-2010 period. The increase is broken down as follows:

- Retirees of the Other Uniformed Services—$22 million in 2002, $178 million over the 2001-2005 period and $519 million over the 2001-2010 period.

- Increased Medicare Use—$116 million in 2002, $939 million over the 2001-2005 period and $2.7 billion over the 2001-2010 period.

- Medicare Subvention—$20 million in 2001 and $8 million in 2002 with no further estimated effects.

TABLE 2. ESTIMATED COST OF THE MODIFIED SENATE PROPOSAL

	By Fiscal Year, Outlays in Millions of Dollars									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CHANGES IN DIRECT SPENDING										
Retirees of Other Uniformed Services	0	22	48	52	56	60	64	68	72	77
Increased Medicare Use	0	116	252	273	298	311	332	354	377	402
Medicare Subvention	20	8	0	0	0	0	0	0	0	0
Total Changes	20	146	300	325	354	371	396	422	449	479
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Tricare Costs	0	1,447	3,160	3,428	3,700	3,971	4,248	4,535	4,848	5,194

Spending Subject to Appropriation. Implementing the modified Senate proposal would require a significant increase in DoD's appropriated spending for health care. CBO estimates that those costs would be $1.4 billion in 2002, $11.7 billion over the 2001-2005 period, and $34.5 billion through 2010, subject to the appropriation of the necessary funds.

Cost of the Conference Agreement

The analysis of the cost of the conference agreement is more complex than that for the modified Senate proposal. The conference agreement would pay for the new Tricare benefit, as well as for care currently provided for those age 65 and over, out of a new trust fund that would utilize accrual accounting to determine the level of intragovernmental payments into the fund. Outlays from the trust fund would constitute direct spending. In addition, DoD would need to make an accrual payment out of its discretionary appropriation to fund the

accruing benefit for current active duty members. See Table 3 for a breakdown of outlays under this proposal.

TABLE 3. ESTIMATED COST OF THE CONFERENCE AGREEMENT

	By Fiscal Year, Outlays in Millions of Dollars									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CHANGES IN DIRECT SPENDING										
Tricare Costs	0	0	3,160	3,428	3,700	3,971	4,248	4,535	4,848	5,194
MTF Costs	0	0	2,039	2,209	2,386	2,561	2,744	2,932	3,142	3,373
Increased MTF Costs	0	0	204	221	239	256	274	293	314	337
Retirees of Other Uniformed Services	3	26	48	52	56	60	64	68	72	77
Increased Medicare Use	0	116	252	273	298	311	332	354	377	402
Medicare Subvention	20	8	0	0	0	0	0	0	0	0
Total Changes	23	150	5,703	6,183	6,679	7,159	7,662	8,182	8,753	9,383
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
MTF Costs	0	0	-2,039	-2,209	-2,386	-2,561	-2,744	-2,932	-3,142	-3,373
Accrual Payments	0	0	3,184	3,414	3,519	3,612	3,698	3,777	3,867	3,966
Tricare Costs	200	1,688	0	0	0	0	0	0	0	0
Total Changes	200	1,688	1,145	1,205	1,133	1,051	954	845	725	593

Memorandum:	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Intragovernmental Collections from DoD Accrual Payments	0	0	-3,184	-3,414	-3,519	-3,612	-3,698	-3,777	-3,867	-3,966

Direct Spending. The amount of direct spending under the conference agreement would be much higher than for the modified Senate proposal because spending for all Tricare benefits would no longer be subject to appropriation. The Tricare costs and other direct spending effects of the conference agreement are as follows:

- Tricare Costs—$3.2 billion in 2003, $10.3 billion over the 2001-2005 period, and $33.1 billion over the 2001-2010 period. Because the trust fund would not start paying out until 2003, the cost of providing Tricare insurance in 2001 and 2002 would still be subject to appropriation.

- MTF Costs—$2 billion in 2003, $6.6 billion over the 2001-2005 period, and $21.4 billion over the 2001-2010 period. The money that DoD currently spends on beneficiaries age 65 and over at MTFs would be treated as direct spending.

- Increased MTF Costs—$200 million in 2003, $660 million over the 2001-2005 period, and $2.1 billion over the 2001-2010 period. This proposal would increase MTF spending on beneficiaries age 65 and over above the amounts DoD currently spends. This increase in spending would occur because DoD would no longer face any budgetary pressure on providing benefits and would thus provide a richer benefit to beneficiaries age 65 and over when treating them at MTFs.

- Retirees of the Other Uniformed Services—$3 million in 2001, $185 million over the 2001-2005 period, and $526 million over the 2001-2010 period.

- Increased Medicare Use—$116 million in 2002, $939 million over the 2001-2005 period, and $2.7 billion over the 2001-2010 period.

- Medicare Subvention—$20 million in 2001 and an additional $8 million in 2002.

Spending Subject to Appropriation. Under the conference agreement, there would be discretionary savings in the military health care system provided appropriations were reduced by the estimated amounts. However, implementing accrual accounting would require that DoD make monthly accrual payments into the trust fund out of its annual appropriation.

- MTF Costs–discretionary savings of $2 billion in 2003, $6.6 billion over the 2001-2005 period, and $21.4 billion over the 2001-2010 period. The spending for beneficiaries age 65 and over that is provided through annual appropriations under current law would no longer be necessary, since that money would be drawn out of the trust fund.

- Accrual Payments—$3.2 billion in 2003, $10.1 billion over the 2001-2005 period, and $29 billion over the 2001-2010 period. These payments would not affect net federal outlays because they would be received as intragovernmental collections into the trust fund. (See the “memorandum” line in Table 3, which shows the offset to the “accrual payments” line.)

- Tricare Costs—$200 million in 2001 and $1.7 billion in 2002. Partial eligibility for Tricare would begin in 2001, but mandatory payments from the new trust fund would not start until 2003. Therefore, the initial costs would be subject to appropriation.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Both proposals would extend existing private-sector and intergovernmental mandates in the TRICARE Senior Prime Demonstration program; however, CBO estimates that the costs of those mandates would fall well below the thresholds as specified in the Unfunded Mandates Reform Act (UMRA).

By extending the TRICARE Senior Prime Demonstration program, both proposals would extend existing mandates that require insurers, under certain circumstances, to issue medigap policies to Medicare enrollees who chose to drop coverage from DoD's Tricare Senior Prime program. They also would prohibit insurers from discriminating in the pricing of such policies based on an individual's health status or use of care, or from using coverage exclusions for preexisting conditions as long as any lapse in coverage was no more than 63 days. These requirements would be mandates as defined in UMRA for both the private sector and for state, local, and tribal governments (to the extent that those governments provide medigap policies to their retirees). However, because of the small number of people affected by the provisions, CBO estimates that the costs of extending those mandates would be small and would fall well below the thresholds as specified in UMRA ($109 million in 2000 for private-sector mandates and $55 million in 2000 for intergovernmental mandates, adjusted annually for inflation).

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