CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 6, 1999

S. 331
Work Incentives Improvement Act of 1999

As passed by the Senate on June 16, 1999

SUMMARY

S. 331, the Work Incentives Improvement Act of 1999, would alter cash and health-care benefits for people with disabilities. Title I would provide states with options to extend Medicaid coverage to certain disabled workers, enhance Medicare for certain former recipients of Social Security Disability Insurance (DI), and establish grants and demonstration projects for states to assist disabled workers. Title II would revamp the system under which people collecting benefits from 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. Titles III and IV would require the Social Security Administration (SSA) to conduct several demonstration projects, give certain members of the clergy another opportunity to enroll in the Social Security system, and tighten restrictions on the payment of Social Security benefits to prisoners. CBO estimates that the bill would reduce the total federal surplus by $0.7 billion over the 2000-2004 period; the off-budget Social Security surplus would be smaller by $0.1 billion, and the on-budget surplus would be reduced by $0.7 billion.

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 subtitles A and B of title II and titles III and IV of this bill fall within that exclusion or contain no intergovernmental mandates. Provisions of the bill 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 S. 331 on direct spending and revenues is summarized in Table 1. The costs of this legislation fall within budget functions 550 (Health), 570 (Medicare), 600 (Income Security), and 650 (Social Security).

BASIS OF ESTIMATE

For purposes of estimating the budgetary effects of S. 331, CBO assumes enactment by September 1999. Most provisions of S. 331, as passed by the Senate, are the same as in the version that was reported by the Senate Committee on Finance in March. Changes are summarized in Table 2. The major differences that affect CBO's estimate are:

- S. 331, as passed by the Senate, would create a more limited extension of Medicare for DI recipients who return to work than the one proposed in the reported bill. The bill as reported would have allowed people who graduate from the extended period of eligibility (EPE) in the next 10 years to continue to receive Medicare benefits indefinitely without having to pay any Part A premium. The version of the bill passed by the Senate would extend Medicare benefits indefinitely to those who graduate in the next six years.

- S. 331, as passed by the Senate, would provide $305 million in grant funds for demonstration projects offering Medicaid benefits to workers with potentially severe disabilities. The earlier version would have provided $300 million in grant funds. The extra $5 million would be available for administrative costs.

- As passed, S. 331 would permanently establish the Tickets to Work and Self-Sufficiency program. The bill as reported would have ended this new VR program after five years.

- S. 331, as passed by the Senate, does not contain the income tax-related provisions contained in title V of the earlier version.

Table 1. Estimated Direct Spending and Revenue Effects of S. 331, By Provision

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Title I										
State Option to Eliminate Income, Resource and Asset Limitations for Medicaid Buy-in										
Medicaid	15	16	18	20	22	24	26	29	32	35
State Option to Continue Medicaid Buy-in for Participants Whose DI or SSI Benefits Are Terminated After a CDR										
Medicaid	1	2	3	4	5	6	8	9	11	13
Extension of Medicare for Former DI Beneficiaries Who Exhaust Their Current-Law EPE in Next Six Years										
Medicare	10	29	48	68	95	125	147	144	151	157
Grants to States to Provide Infrastructure to Support Working Individuals with Disabilities										
HHS outlays	6	7	7	8	9	10	11	12	13	14
Demonstration Project for States Covering Workers with Potentially Severe Disabilities										
HHS outlays	11	51	76	76	76	15	0	0	0	0
Title II										
Establishment of the Ticket to Work and Self-Sufficiency Program										
DI Beneficaries										
Milestone Payments to Providers	0	a	1	6	14	22	26	29	34	39
Incentive Payments to 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
Benefits Saved	0	a	a	-5	-25	-59	-104	-122	-138	-152
Extra Benefits Paid	a	a	1	2	3	5	8	11	14	18
Subtotal, DI	a	a	2	3	-5	-21	-45	-51	-52	-53
SSI Beneficiaries										
Milestone Payments to Providers	0	a	1	3	7	11	13	14	17	19
Incentive Payments to 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
Benefits Saved	0	a	a	-1	-7	-16	-27	-32	-36	-40
Subtotal, SSI	0	a	1	1	-2	-7	-16	-22	-27	-32
Medicaid Savings	0	0	0	0	0	0	0	0	0	0
Bar on Work CDRs for Certain DI Beneficiaries With Earnings										
Disability Insurance	5	15	20	20	20	25	25	25	25	25
Medicare	2	6	7	7	8	8	9	10	10	11
Subtotal (effect on outlays)	7	21	27	27	28	33	34	35	35	36
Expedited Reinstatement of DI Benefits Within 60 Months of Termination										
Disability Insurance	0	1	1	1	2	3	3	4	5	6
Medicare	0	a	a	a	1	1	1	2	2	3
Subtotal (effect on outlays)	0	1	1	1	3	4	4	6	7	9

Continued

Table 1. Continued

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Title III										
Permanent Extension of DI Demonstration Project Authority										
Disability Insurance	3	5	5	5	5	5	5	5	5	5
$1-for-$2 Demonstration Projects										
Contractor Costs (DI)	0	b	b	b	b	b	b	b	b	b
DI Benefit Costs	0	0	3	8	13	18	19	18	18	18
Medicare Costs	0	0	0	0	2	4	7	9	9	9
Subtotal (effect on outlays)	0	0	3	8	15	22	26	27	28	27
Title IV										
Provisions Affecting Prisoners										
Payments to Prison Officials (OASDI)	2	7	8	9	9	10	10	10	10	10
Payments to Prison Officials (SSI)	a	1	1	1	1	1	1	1	1	1
Savings in Benefits (OASDI)	-3	-15	-18	-20	-23	-25	-25	-25	-25	-25
Savings in Benefits (SSI)	-2	-7	-8	-9	-11	-11	-11	-11	-11	-11
Subtotal (effect on outlays)	-3	-15	-17	-20	-24	-25	-25	-25	-25	-25
Open Season for Clergy to Enroll in Social Security										
Off-Budget (OASDI) Revenues	2	7	9	9	9	10	10	10	10	11
On-Budget (HI) Revenues	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	a	a	a	a	a	a	1	1	1	1
Subtotal (effect on total surplus)	3	8	10	10	10	10	10	10	11	11
Total										
Outlays										
On-Budget	44	104	152	175	205	177	183	180	180	175
Off-Budget	6	13	22	26	21	16	-7	-13	-13	-13
Total	50	117	174	201	227	193	176	167	166	162
Revenues										
On-Budget	1	1	1	1	1	1	1	1	1	1
Off-Budget	2	7	9	9	9	10	10	10	10	11
Total	3	8	10	10	10	11	11	11	11	12
Deficit (-) or Surplus (+)										
On-Budget	-43	-103	-151	-174	-205	-176	-183	-179	-179	-174
Off-Budget	-4	-6	-13	-17	-12	-6	17	23	24	24
Total	-47	-108	-164	-191	-217	-182	-165	-156	-155	-150

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, EPE=extended period of eligibility, HI=Hospital Insurance (Medicare Part A), HHS=Department of Health and Human Services.

a. Less than $500,000.

b. The cost of conducting and evaluating the demonstrations would be subject to appropriation.

Table 2. Differences Between Estimates of S. 331 as Reported by the Committee on Finance and as Passed by the Senate

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CBO Estimate of S. 331 as Reported										
Outlays	50	119	177	207	238	206	195	187	287	334
Revenues	75	60	152	650	603	572	545	458	324	n.a.
Deficit (-) or Surplus (+)	25	-58	-25	443	365	366	350	271	38	n.a.
Corrections to Previous CBO Estimate										
Outlays										
Tickets to Work and Self-Suffiency Program										
Payments to Program Manager (DI)	-1	-2	-1	-2	-3	-3	-1	a	0	0
Payments to Program Manager (SSI)	a	-1	a	-1	-1	-1	a	a	0	0
Subtotal	-1	-3	-1	-2	-4	-4	-1	-1	0	0
$1-for-$2 Demonstration Projects										
Contractor Costs (DI)	0	a	-4	-5	-6	-6	-4	-4	-4	-4
Total (outlays)	-1	-3	-5	-7	-9	-11	-5	-5	-4	-4
Changes in S. 331 From Reported Version										
Outlays										
Extension of Medicare for Former DI										
Beneficiaries (net)	0	0	0	0	0	0	-16	-51	-83	-137
Demonstration Project for States Covering Workers with Potentially Severe Disabilities										
HHS Outlays	1	1	1	1	1	0	0	0	0	0
Tickets to Work and Self-Suffiency Program										
Disability Insurance	0	0	0	0	0	0	4	26	-19	-16
Medicare	0	0	0	0	0	0	0	0	3	6
Supplemental Security Income	0	0	0	0	0	0	a	8	-16	-20
Subtotal	0	0	0	0	0	0	4	35	-32	-30
Spending from IRS User Fees	0	0	0	0	-3	-3	-3	0	0	0
Total (outlays)	1	1	1	1	-2	-3	-15	-16	-115	-167
Revenues	-72	-52	-142	-640	-593	-560	-534	-447	-313	n.a.
Deficit (-) or Surplus (+)	-73	-53	-143	-641	-591	-557	-519	-431	-198	n.a.
S. 331 as Passed by the Senate										
Outlays	50	117	174	201	227	193	176	167	166	162
Revenues	3	8	10	10	10	11	11	11	11	12
Deficit (-) or Surplus (+)	-47	-108	-164	-191	-217	-182	-165	-156	-155	-150

NOTES: Components may not sum to totals due to rounding.
n.a. = not available.
a. Less than $500,000.

A change in section 101 of the bill does not affect estimated federal spending but would place restrictions on the income requirements that states employ to enroll workers with disabilities in Medicaid. The reported version of S. 331 would not have required states to impose any income, asset, or resource limits. The version passed by the Senate would require states that take the option to charge a full premium to individuals with income above 250 percent of poverty (as long as the premium does not exceed 7.5 percent of the individual's income). Individuals with income above 450 percent of poverty or whose adjusted gross income exceeds $75,000 would be required to pay the full premium. Since CBO assumed that states would employ similar restrictions under the bill as reported, there is no change in the estimate of this provision under the Senate-passed version.

Another change is the addition of a provision in title I that would require Medigap insurers to reinstate coverage that disabled beneficiaries had previously suspended because they had obtained group health plan coverage, if the beneficiaries lose group coverage and request reinstatement within 90 days of that loss.

CBO has also revised its earlier estimate of S. 331 slightly to reflect the fact that some outlays previously shown as direct spending would in fact be subject to future appropriation. Specifically, the payments to the program manager—the contractor that would handle distribution of tickets, recruit VR providers, and administer reimbursements—would come out of SSA's appropriation for administrative expenses. Also, the demonstration projects that would require SSA to test reducing DI benefits by $1 for every $2 of earnings over a certain threshold would require future appropriation. (The resulting DI and Medicare benefit costs would happen automatically, however, assuming that the demonstrations are funded.) In total, CBO estimated that SSA's outlays for these two activities would be less than $11 million a year.

Because of the close overlap between the remaining provisions of S. 331 as reported and as passed, readers seeking more detail about the basis of CBO's estimate are directed to its analysis of S. 331 as ordered reported.[1]

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 the

1 CBO's analysis of the earlier version of S. 331 appears in Senate Report 106-37 (March 26, 1999) and is also available on CBO's Web site (www.cbo.gov).

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.

Table 3. Summary of Pay-As-You-Go Effects of S. 331

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	44	104	152	175	205	177	183	180	180	175
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 program under title II of the Social Security Act, including tax provisions in the Internal Revenue Code. CBO has determined that the provisions of S. 331 either fall within that exclusion or contain no intergovernmental mandates.

The bill includes optional programs for states that would result in greater state spending if they chose to participate as well as additional grants to states for specific programs.

Title I contains a number of options for states to expand their Medicaid program to cover workers with disabilities who want to buy into Medicaid and to continue Medicaid coverage for individuals who lose their eligibility for DI or SSI following a continuing disability review. CBO estimates that state costs attributable to these optional expansions during the first five years would total about $70 million for the first option and about $10 million for the second. States that implement the first of these Medicaid options would be eligible for grants to develop and operate programs to support working individuals with disabilities. CBO estimates that states would receive a total of about $40 million during the first five years the program is in effect. States would also be able to charge participants premiums or other fees to offset a portion of the costs.

Title I would also allow states to establish demonstration projects that would provide Medicaid to working individuals with physical or mental impairments who, without

Medicaid, could become blind or disabled. CBO estimates that state costs attributable to this optional coverage would total $220 million over the first five years of implementation.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

Provisions of the bill not excluded from consideration by UMRA include one private-sector mandate on insurers who provide Medigap coverage to Medicare beneficiaries who are eligible because of disability. It requires such insurers to reinstate coverage that disabled beneficiaries had previously suspended because they had obtained group health plan coverage if the beneficiaries lose 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, the costs that might be imposed on Medigap insurers would also be very small—less than $5 million a year by 2009.

ESTIMATE PREPARED BY:

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