CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 10, 1999

Medicare Subvention Demonstration for Veterans Act of 1999

As ordered reported by the Senate Committee on Finance on June 24, 1999

SUMMARY

The Medicare Subvention Demonstration for Veterans Act would require the Secretaries of Health and Human Services (HHS) and Veterans Affairs (VA) to establish a demonstration project in which Medicare pays the VA for Medicare-covered services furnished to certain veterans who are entitled to Medicare. (Medicare payment to federal providers of health care services is referred to as Medicare subvention.) The bill also would extend and modify a demonstration project of Medicare subvention involving the Department of Defense (DoD). Finally, the bill would reduce Medicare payments to hospitals for bad debt—that is, copayments and deductibles those hospitals are unable to collect from Medicare beneficiaries.

CBO estimates the bill would increase Medicare spending by $5 million in fiscal year 2000, but would reduce spending by $5 million over the 2000-2004 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply. The bill would impose no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of this bill is shown in the following table. The costs of this legislation fall within budget function 570 (Medicare).

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
CHANGES IN DIRECT SPENDING					
Medicare Subvention—VA	a	20	25	20	5
Medicare Subvention—DoD	5	25	5	0	0
Bad Debt	a	-5	-30	-35	-40
Total	5	40	0	-15	-35

Note: VA = Department of Veterans Affairs, DoD = Department of Defense.

a. Cost or savings of less than $500,000.

BASIS OF ESTIMATE

Medicare Subvention for Veterans

Under current law—with a few exceptions, such as the existing demonstration project of Medicare subvention for DoD—Medicare does not pay federal providers of health care services when they furnish Medicare-covered services to Medicare enrollees. The bill would require the establishment of a demonstration project in which Medicare would pay VA for services furnished to certain Medicare-eligible veterans at up to eight VA medical facilities. In general, veterans who are not poor or do not have a compensable service-related disability would be eligible to participate in the project. Medicare would pay on a capitated basis for participating veterans at half of the sites and on a fee-for-service basis at the remaining sites.

The capitated component of the demonstration would operate for up to three years during the 2000-2003 period, and the fee-for-service component would operate for up to three years during the 2001-2004 period. Total Medicare payments to VA would be limited to $150 million over the course of the demonstration. The bill would require that VA maintain its level of effort in terms of the amount VA spends for Medicare-covered services provided to eligible but nonparticipating veterans at the demonstration sites. However, that maintenance of effort requirement does not encompass Medicare-covered services that VA provides to Medicare-eligible veterans who are not eligible to participate in the demonstration because they do not live near a demonstration site, are poor, or have a compensable service-related disability.

CBO assumes that VA would reallocate resources to satisfy the maintenance of effort requirement for eligible but nonparticipating veterans at the demonstration sites, and that as a result, VA would provide less Medicare-covered care to Medicare-eligible veterans who do not live near a demonstration site, are poor, or have a compensable service-related disability. Thus, some of the care those veterans would receive from VA under current law would instead be furnished by providers in the community. CBO estimates that the provision would not have a significant effect on Medicare spending in 2000. However, the increase in Medicare spending for payments to community providers for services displaced from the VA would total $70 million over the 2000-2004 period.

Medicare Subvention for Military Retirees

The Balanced Budget Act of 1997 established a Medicare subvention demonstration project for care furnished by DoD to military retirees. The bill would extend that project for one year—through 2001—and permit Medicare to pay DoD on a fee-for-service basis. (The current demonstration involves payment on a capitated basis only.)

The DoD demonstration also has a maintenance of effort requirement that is implemented on a site-specific basis, rather than on a system-wide basis. CBO expects that DoD would reallocate resources to satisfy the maintenance of effort requirement at the demonstration sites, and that as a result, DoD would provide less Medicare-covered care to Medicare-eligible military retirees who do not receive care at a demonstration site. Thus, some of the care those military retirees would receive from DoD under current law would instead be furnished by providers in the community. CBO estimates that Medicare payments to community providers for services displaced from the DoD facilities would total $5 million in 2000 and $35 million over the 2000-2004 period.

Bad Debt

Under current law, Medicare pays hospitals 55 percent of the amount of deductibles and coinsurance that hospitals do not collect from Medicare beneficiaries. The bill would reduce that proportion to 49 percent, beginning with cost reporting periods that begin during fiscal year 2000. That provision would not have a significant effect on Medicare spending in 2000, because most of the effect would be delayed until the cost reports for 2000 are settled, beginning in late 2001. CBO estimates that the change in bad debt payments would reduce Medicare spending by $110 million over the 2000-2004 period.

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 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 budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	5	40	0	-15	-35	-45	-45	-50	-50	-55
Changes in receipts	Not applicable									

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On May 29, 1998, CBO produced an estimate of H.R. 3828, the Veterans Medicare Access Improvement Act of 1998, as ordered reported by the House Committee on Ways and Means. That bill proposed a Medicare subvention program for the VA that differed in significant ways from this proposal. That cost estimate contained an extensive discussion of issues involved in measuring, monitoring, and enforcing a maintenance of effort requirement. The current analysis uses the methods described in that estimate to calculate the increase in Medicare spending due to erosion of the VA's and DoD's level of effort.

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