CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 10, 2002

H.R. 4584
A bill to amend title XIX of the Social Security Act to extend the authorization of transitional medical assistance for one year

As ordered reported by the House Committee on Energy and Commerce on April 24, 2002

SUMMARY

This bill would extend by one year the requirement that state Medicaid programs provide up to 12 months of eligibility, known as transitional medical assistance (TMA), to certain Medicaid beneficiaries (usually former welfare recipients) who would otherwise be ineligible because they have returned to work and have increased earnings. Under current law, the requirement will expire on September 30, 2002.

CBO estimates that H.R. 4584 would increase direct spending by $355 million over the 2003-2007 period. Within that total, CBO anticipates that federal Medicaid spending would rise by $365 million and that federal spending in the State Children's Health Insurance Program (SCHIP) would decline by $10 million. Because this bill would affect direct spending, pay-as-you-go procedures would apply.

This bill does not contain any intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill's one-year extension of transitional medical assistance would result in additional state spending of $265 million over the 2003-2007 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4584 is shown in the following table. The costs of this legislation fall within budget function 550 (health).

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
CHANGES IN DIRECT SPENDING					
Medicaid					
Estimated Budget Authority	130	200	25	10	0
Estimated Outlays	130	200	25	10	0
SCHIP					
Estimated Budget Authority	0	0	0	0	0
Estimated Outlays	-5	-10	5	0	0
Total cost of H.R. 4584					
Estimated Budget Authority	130	200	25	10	0
Estimated Outlays	125	190	30	10	0

Note: SCHIP is the State Children's Health Insurance Program.

BASIS OF ESTIMATE

Medicaid

State Medicaid programs are required by section 1931 of the Social Security Act to cover individuals who meet the eligibility requirements for the state's Aid to Families with Dependent Children (AFDC) program that were in effect on July 16, 1996. AFDC has since been replaced by the Temporary Assistance for Needy Families (TANF) program. States that wish to expand eligibility beyond this minimum requirement may do so by disregarding a portion of an applicant's income and assets. Although there is no formal link between Medicaid and TANF eligibility, many states have aligned the two programs' eligibility standards. As a result, most of the individuals who receive Medicaid under section 1931 are welfare recipients.

Under current law, states are required to temporarily continue Medicaid coverage for certain individuals (and their dependents) whose earnings increase above the state's eligibility levels. This transitional medical assistance is available for individuals who have received Medicaid under section 1931 for at least three of the previous six months and would otherwise lose their eligibility because their earnings have increased. TMA recipients are guaranteed to remain eligible for Medicaid for six months; after that, they may remain eligible for another six months if they report their income on a periodic basis and have incomes below

185 percent of the poverty level. Some states have opted to soften the three-out-of-six requirement (by disregarding some of a recipient's income when determining eligibility) or provide TMA for longer periods (under a waiver).

The requirement for states to provide TMA currently applies to individuals who lose their eligibility under section 1931 prior to September 30, 2002. H.R. 4584 would extend the requirement through September 30, 2003. CBO estimates that this bill would increase federal Medicaid spending by $130 million in 2003 and a total of $365 million over the 2003-2007 period.

Number of Beneficiaries. Many families move on and off the Medicaid and TANF rolls as their family and employment circumstances change. Under current law, CBO anticipates that about 1.4 million families enrolled under section 1931 will lose their Medicaid eligibility in 2003. Based in part on experience with welfare case closures, CBO projects that slightly more than one million families will leave the TANF rolls in 2003. As noted earlier, many of those families will also lose their Medicaid eligibility. The remaining families will be Medicaid recipients who were not enrolled in TANF.

Based on research on families leaving welfare, CBO anticipates that about 500,000 families would meet the basic requirements for TMA in 2003. Recent TANF data on the number of recipients in each family suggest that there are about 500,000 adults and 900,000 children in those families. (Virtually all families that receive TANF and have an adult recipient are single-parent families.)

From this eligible population, CBO estimates that the extension of TMA would enroll an additional 300,000 adults and 360,000 children in Medicaid. Those estimates account for individuals who would remain enrolled in Medicaid under other eligibility categories after losing their section 1931 eligibility (and thus not receive TMA). Based on studies of families leaving welfare, CBO also assumed only moderate participation in TMA. As noted earlier, many children in families that lose their section 1931 eligibility remain eligible for Medicaid under other eligibility rules. However, studies suggest that many children drop off the rolls once their parents lose eligibility. By extending TMA, the bill would therefore keep some of those children enrolled in Medicaid.

CBO anticipates that the bill's effect on Medicaid enrollment would be much smaller when measured on a full-year equivalent basis. Under current law, families losing their section 1931 eligibility would receive four months of eligibility—even without TMA—under a separate provision of Medicaid law. The bill would therefore provide most families with another eight months of eligibility instead of 12. Even then, research on TMA recipients indicates that many people do not remain eligible for a full 12 months because they fail to report their incomes on a periodic basis.

After accounting for these factors, CBO estimates that H.R. 4584 would increase Medicaid enrollment on a full-year-equivalent basis by about 115,000 in 2003, 160,000 in 2004, and smaller amounts in 2005 and 2006. The bill's effects would extend beyond 2003 because families who qualify for TMA at any point in that year would be entitled to as many as 12 months of additional eligibility, even if that period of eligibility runs beyond 2003. (Families living in states that provide more than 12 months of TMA through a waiver could remain eligible into 2005 or 2006.)

Per Capita Costs. CBO estimates that the federal share of costs in 2003 per full-year equivalent would be about $1,350 for an adult and $975 for a child. Those figures are lower than CBO's baseline figures for adults and children (by about 30 percent and 10 percent, respectively) because of a number of adjustments. First, CBO excluded pregnancy-related costs for adults. Pregnant women are typically eligible for Medicaid at much higher income levels than under section 1931, so they would be unlikely to receive TMA. Second, CBO assumed that adults and children in families receiving TMA would be somewhat healthier than other Medicaid recipients and thus have lower costs, on average. Finally, CBO assumed that some TMA recipients would receive a more limited set of benefits than Medicaid usually provides because states do not have to provide non-acute care services to TMA recipients in their second six-month period of eligibility.

State Children's Health Insurance Program

CBO anticipates that under current law about 10 percent of the families leaving welfare in 2003 because of higher earnings would have incomes high enough to make their children ineligible for Medicaid, and that some of the children in these families would enroll in SCHIP instead. By extending TMA, the bill would make those children eligible for Medicaid. Since children who are eligible for Medicaid cannot receive SCHIP, the bill would lead to savings in SCHIP.

CBO estimates that the bill would reduce federal SCHIP outlays by $5 million in 2003 and $10 million in 2004. Since states generally have three years to spend their SCHIP allotments, those savings would free up funds that could be spent on benefits in later years, and CBO estimates that spending would increase by $5 million in 2005.

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 through fiscal year 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	125	190	30	10	0	0	5	0	0	0
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

This bill does not contain any intergovernmental or private-sector mandates as defined in UMRA. The bill's one-year extension of transitional medical assistance would result in additional state spending of $265 million over the 2003-2007 period.

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