



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 23, 2004

H.R. 3474 **Keep Our Promise to America's Military Retirees Act**

As introduced on November 6, 2003

SUMMARY

H.R. 3474 would increase health insurance benefits for retirees from the uniformed services and their survivors. 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. Under H.R. 3474, Medicare-eligible retirees who entered the uniformed services before December 7, 1956, their dependents, and surviving spouses would be able to enroll in Medicare Part B without making any premium payments. Furthermore, those same retirees, dependents, and surviving spouses who currently pay an additional penalty premium to enroll in Part B (because they enrolled after the initial enrollment period) would be exempted from that penalty retroactive to January 2001. In addition, all retirees and surviving spouses would be eligible to enroll in the Federal Employees Health Benefits (FEHB) program; those who choose to enroll in the FEHB program would not be eligible to use their military health insurance (TRICARE). All retirees and survivors, regardless of age, could continue to receive care at a military treatment facility on a space-available basis.

CBO estimates that enacting H.R. 3474 would raise direct spending by \$2.2 billion in 2005, about \$14 billion over the 2005-2009 period, and about \$34 billion over the 2005-2014 period. In addition, CBO estimates that the bill would save \$221 million in 2005 and \$3.1 billion in discretionary spending over the 2005-2009 period, assuming appropriations are reduced by the estimated amounts.

H.R. 3474 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3474 is shown in Table 1. The costs of this legislation fall within budget functions 050 (national defense), 300 (natural resources), 400 (transportation), 550 (health), and 570 (Medicare).

TABLE 1. ESTIMATED COSTS OF H.R. 3474

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|--|-------|-------|-------|--------|--------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| CHANGES IN DIRECT SPENDING | | | | | | |
| Estimated Budget Authority | 0 | 2,244 | 2,115 | 2,711 | 3,382 | 3,645 |
| Estimated Outlays | 0 | 2,244 | 2,115 | 2,711 | 3,382 | 3,645 |
| CHANGES IN SPENDING SUBJECT TO APPROPRIATION | | | | | | |
| Estimated Authorization Level | 0 | 0 | -275 | -682 | -1,146 | -1,331 |
| Estimated Outlays | 0 | 0 | -221 | -594 | -1,039 | -1,273 |

BASIS OF ESTIMATE

This estimate assumes that H.R. 3474 is enacted by the end of December 2004, and that appropriations are reduced by the estimated amounts starting in fiscal year 2006.

Direct Spending

Under H.R. 3474, net Medicare outlays would increase as qualified individuals would be able to enroll in Medicare Part B without paying a monthly premium. The bill also would have an effect on direct spending for the Department of Defense (DoD) and its TRICARE-for Life (TFL) program. Finally, under the bill, retirees from the uniformed services, their dependents, and surviving spouses would be eligible to enroll in the FEHB program. In total, CBO estimates that under H.R. 3474, direct spending would increase by \$2.2 billion in 2005 and by about \$34 billion over the 2005-2014 period, as shown in Table 2.

TABLE 2. ESTIMATED CHANGES IN DIRECT SPENDING UNDER H.R. 3474

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | |
|--|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Loss of Receipts from Part B Premiums | | | | | | | | | | |
| Estimated Budget Authority | 2,019 | 1,191 | 1,163 | 1,138 | 1,135 | 1,132 | 1,125 | 1,112 | 1,095 | 1,078 |
| Estimated Outlays | 2,019 | 1,191 | 1,163 | 1,138 | 1,135 | 1,132 | 1,125 | 1,112 | 1,095 | 1,078 |
| Medicare Benefits for New Part B Enrollees | | | | | | | | | | |
| Estimated Budget Authority | 96 | 245 | 244 | 238 | 235 | 233 | 235 | 227 | 228 | 226 |
| Estimated Outlays | 96 | 245 | 244 | 238 | 235 | 233 | 235 | 227 | 228 | 226 |
| Refund of Part B Premium Penalty | | | | | | | | | | |
| Estimated Budget Authority | 37 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Estimated Outlays | 37 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subtotal-Medicare | | | | | | | | | | |
| Estimated Budget Authority | 2,152 | 1,436 | 1,407 | 1,376 | 1,370 | 1,365 | 1,360 | 1,339 | 1,323 | 1,304 |
| Estimated Outlays | 2,152 | 1,436 | 1,407 | 1,376 | 1,370 | 1,365 | 1,360 | 1,339 | 1,323 | 1,304 |
| TRICARE-for-Life | | | | | | | | | | |
| Estimated Budget Authority | 92 | 257 | 260 | 262 | 263 | 264 | 263 | 264 | 265 | 266 |
| Estimated Outlays | 92 | 257 | 260 | 262 | 263 | 264 | 263 | 264 | 265 | 266 |
| Federal Employees Health Benefits Program | | | | | | | | | | |
| Estimated Budget Authority | 0 | 430 | 1,063 | 1,776 | 2,049 | 2,173 | 2,305 | 2,444 | 2,592 | 2,749 |
| Estimated Outlays | 0 | 430 | 1,063 | 1,776 | 2,049 | 2,173 | 2,305 | 2,444 | 2,592 | 2,749 |
| Coast Guard and Other Uniformed Services | | | | | | | | | | |
| Estimated Budget Authority | 0 | -8 | -19 | -32 | -37 | -40 | -42 | -45 | -48 | -51 |
| Estimated Outlays | 0 | -8 | -19 | -32 | -37 | -40 | -42 | -45 | -48 | -51 |
| Total Changes | | | | | | | | | | |
| Estimated Budget Authority | 2,244 | 2,115 | 2,711 | 3,382 | 3,645 | 3,762 | 3,886 | 4,002 | 4,132 | 4,268 |
| Estimated Outlays | 2,244 | 2,115 | 2,711 | 3,382 | 3,645 | 3,762 | 3,886 | 4,002 | 4,132 | 4,268 |

Medicare. Under section 5 of H.R. 3474, retirees from the uniformed services who entered the services before December 7, 1956, along with their dependents and surviving spouses, would be able to enroll in Part B of Medicare without paying a monthly premium; the Department of Health and Human Services (HHS) would refund any premium penalties paid by these enrollees for delayed enrollment in Part B, retroactive to January 2001. Enacting this section would increase direct spending by reducing collections of premiums, increasing

Medicare spending for those who are not currently enrolled in Part B, and providing for refunds of premium penalties paid for late enrollment in Part B. In total, CBO estimates that this section would increase direct spending by \$2.2 billion in 2005 and more than \$14 billion over the 2005-2014 period.

Loss of Receipts from Part B Premiums. Part B of Medicare covers doctors' fees, hospital outpatient services, laboratory tests, and certain other services. Those who choose to participate pay a monthly premium, set to cover about 25 percent of the cost of the program. Section 5 would allow all retirees from the uniformed services who joined before December 7, 1956, their dependents, and surviving spouses to enroll in Part B without paying a monthly premium. The provision would be effective January 2004. Using information from DoD and the Centers for Medicare and Medicaid Services (CMS), CBO estimates that this provision would affect about 1.4 million retirees, dependents, and surviving spouses in 2004 who are currently enrolled in Part B; this number would decline to about 800,000 in 2014. The monthly premium in 2004 is about \$67; CBO estimates that this premium will increase to about \$114 a month in 2014. Thus, CBO estimates that enacting section 5 would reduce premium collections by about \$2 billion in 2005, \$6.6 billion over the 2005-2009 period, and \$12.2 billion over the 2005-2014 period. (In 2005, about \$840 million of the estimated \$2 billion would be refunds for premiums paid from January 2004 through September 2004.) Income from premiums is recorded as offsetting receipts—that is, offsets to direct spending—on the federal budget. Consequently, a decrease in premium payments would result in increased outlays of those amounts.

Medicare Benefits for New Part B Enrollees. Not everyone eligible to enroll in Part B actually does so. Based on information from DoD and CMS, CBO estimates that about 95 percent of retirees, dependents, and surviving spouses are enrolled in Part B. Under section 5, enrollment would be free to those retirees who entered the uniformed services before December 7, 1956, along with their dependents and surviving spouses. CBO expects that an additional 35,000 of these individuals would enroll in Part B during 2005 under section 5; that number would grow to about 67,000 in 2006 before declining to about 40,000 by 2014. CBO estimates that the per capita cost of allowing these individuals to participate in Part B would be about \$3,600 in 2005, increasing to about \$5,400 in 2014. Thus, CBO estimates that enacting section 5 would increase direct spending for new enrollees in Part B by \$96 million in 2005, about \$1.1 billion over the 2005-2009 period, and \$2.2 billion over the 2005-2014 period.

Refund of Part B Premium Penalty. Under current law, those who enroll in Part B after the specified initial enrollment period must pay a penalty in addition to the regular Part B premium for each month they are enrolled in Part B. That penalty is equal to an additional 10 percent of the regular premium for each year of delayed enrollment. An individual who delays enrollment for two years would pay an additional 20 percent each month, while

someone who waits for five years before enrolling would pay an additional 50 percent each month. Section 5 would require that HHS refund any penalties paid between January 2001 and January 2004 by retirees from the uniformed services who joined before December 7, 1956, along with their dependents and surviving spouses. CBO estimates that 38,000 people would qualify for a refund and that the average penalty paid by these individuals over that period is about 50 percent of the average annual premium for that period (\$648). Thus, CBO estimates that enacting section 5 would increase direct spending for these refunds by \$37 million in 2005.

TRICARE-for-Life. Under current law, the TRICARE-for-Life program provides health care benefits to all retirees of the uniformed services, their dependents, and surviving spouses who are eligible for Medicare and enroll in Part B. TFL provides a generous prescription drug benefit and covers all out-of-pocket costs for those benefits that are provided by both Medicare and TRICARE. While there is no enrollment fee for the TFL program, those who use the program must pay the required monthly premiums to participate in Part B. Those individuals who are currently ineligible to use TFL because they have not enrolled in Part B would become eligible for TFL under section 5 because enrollment in Part B would be free. Accordingly, CBO estimates that the same number of people who would newly enroll in Part B at no cost also would use the TFL benefit—about 35,000 people in 2005 and more in subsequent years. Using information from DoD, CBO estimates that the per capita cost of participating in TFL would be about \$3,400 in 2005, increasing to about \$6,400 by 2014. Thus, CBO estimates that enacting section 5 would increase direct spending costs for the TRICARE-for-Life benefit by \$92 million in 2005, about \$1.1 billion over the 2005-2009 period, and about \$2.5 billion over the 2005-2014 period.

Federal Employees Health Benefits Program. Section 3 would allow retirees from the uniformed services and surviving spouses to enroll in the FEHB program in the same manner as federal employees and annuitants. Under current law, retirees from the uniformed services are not allowed to enroll in the FEHB program unless they meet the criteria for employees or annuitants of the federal government. (Section 3 would not apply to retirees from the uniformed services who are otherwise eligible to participate in the FEHB program). Even though the bill would allow all retirees, dependents, and survivors to enroll in the FEHB program, CBO expects only those who are not eligible for the TFL program would consider enrolling in the FEHB program—essentially, those retirees and survivors who are under the age of 65.

Based on information from DoD, CBO estimates that more than 1 million retirees and surviving spouses would be eligible to enroll in the FEHB program under section 3 and that about 75 percent of those individuals have dependents. Using data from DoD, CBO estimates that about 25 percent of those eligible would enroll in the FEHB program, though it would take about three years before enrollment increased to that level. Furthermore, we

do not expect any enrollment until 2006 because of the timing for the FEHB program's open enrollment period. CBO estimates that the average per capita cost of providing health insurance through the FEHB program would be about \$4,700 for a self-only policy and about \$11,000 for a self-and-family policy in 2006. The federal government would be responsible for roughly 72 percent of the total premium for each retiree or survivor who chooses to enroll in FEHB. Accordingly, CBO estimates that enacting section 3 would result in additional direct spending for the federal contributions to the FEHB program of \$430 million in 2006, \$5.3 billion over the 2006-2009 period, and \$17.6 billion over the 2006-2014 period.

Coast Guard and Other Uniformed Services. Some of the new enrollees in the FEHB program would be retirees and surviving spouses from the Coast Guard and the other uniformed services. Under current law, those individuals can receive health care from TRICARE and that spending is considered direct spending. CBO estimates that under section 3 about 1,600 individuals who had previously used TRICARE would enroll in the FEHB program in 2006, with per capita savings to TRICARE of about \$10,000. Thus, CBO estimates that enacting section 3 would reduce spending on TRICARE for the Coast Guard and the other uniformed services by \$8 million in 2006, \$96 million over the 2006-2009 period and \$322 million over the 2006-2014 period. (The savings for retirees and surviving spouses from the military is discussed below under the heading "Spending Subject to Appropriation.")

Spending Subject to Appropriation

Those retirees and surviving spouses from the military who choose to enroll in the FEHB program would no longer be able to use TRICARE insurance, though they would still be allowed to use military treatment facilities to receive direct care. While all retirees and survivors are eligible to use TRICARE, many of them have other insurance options and choose not to use TRICARE. Based on information from DoD, CBO estimates that about 57,000 people who had previously used TRICARE would enroll in the FEHB program in 2006; the remaining individuals would switch from other private health insurance. Using data from DoD and the Medical Expenditure Panel Survey, CBO estimates that in 2006 DoD would save, on average, about \$10,000 for each individual that opted to enroll in the FEHB program. Such costs are paid from DoD's appropriations. Thus, CBO estimates implementing section 3 would lower discretionary spending on TRICARE by \$221 million in 2006 and \$3.1 billion over the 2006-2009 period, assuming appropriations are reduced by the estimated amounts (see Table 1).

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3474 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs: Sam Papenfuss

Impact on State, Local, and Tribal Governments: Melissa Merrell

Impact on the Private Sector: Allison Percy

ESTIMATE APPROVED BY:

Robert A. Sunshine

Assistant Director for Budget Analysis