CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 26, 2004

H.R. 3881

Trade Adjustment Assistance Equity for Service Workers Act of 2004

As introduced in the House of Representatives on March 3, 2004

SUMMARY

H.R. 3881 would extend Trade Adjustment Assistance (TAA) for workers to cover certain dislocated workers from the services sector and expand coverage within the manufacturing sector. In addition, the bill would amend provisions relating to TAA for firms and industries. Finally, the bill would amend provisions of the health insurance costs credit, which is available to TAA recipients and certain recipients of pensions administered by the Pension Benefit Guaranty Corporation (PBGC).

CBO estimates that enacting the bill would increase direct spending by $169 million in 2005, by $2.3 billion over the 2005-2009 period, and by $5.8 billion over the 2005-2014 period. Based on information provided by the Joint Committee on Taxation (JCT), CBO estimates that enacting the bill would reduce revenues by $68 million in 2005, $654 million over the 2005-2009 period, and $1.6 billion over the 2005-2014 period.

The bill would also have effects on discretionary spending. CBO estimates that implementing H.R. 3881 would cost $1 million in 2005, $70 million over the 2005-2009 period, and $151 million over the 2005-2014 period, assuming appropriation of the necessary amounts.

CBO has reviewed the non-tax provisions of H.R. 3881 and determined that they contain no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). The Joint Committee on Taxation has determined that the tax provisions in this bill would not impose any intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3881 is shown in the following table. The costs of this legislation fall within budget functions 450 (community and regional development), 500 (education, employment, training, and social services), 550 (health), and 600 (income security).

BASIS OF ESTIMATE

For this estimate, CBO assumes the bill will be enacted by October 1, 2004. We also assume that the amounts necessary to implement the bill will be appropriated for each year.

Direct Spending

Under current law, the TAA for Workers program provides ongoing unemployment compensation for up to 104 weeks to individuals who lose their job because of trade-related circumstances. Workers certified as eligible for TAA also may receive benefits to offset the costs associated with retraining, job search, and relocation expenses. In addition, TAA beneficiaries (and PBGC pensioners) are eligible to receive a subsidy of the costs of purchasing health insurance coverage during their period of unemployment. In fiscal year 2003, 195,444 workers were certified as eligible to receive TAA benefits. About 48,000 individuals received cash and training benefits in that year, averaging $11,000 per person. TAA spending totaled $550 million in 2003. CBO's baseline projects that outlays for TAA for workers (not including the health insurance subsidy) will total $0.8 billion in 2004, and $9.7 billion over the 2004-2014 period.

H.R. 3881 would expand coverage of TAA for workers by including service workers, relaxing the eligibility criteria for certification, and raising the cap on training. Together, these changes would increase outlays by $5.9 billion over the 2005-2014 period, including costs attributable to the refundable portion of the health insurance costs credit available to TAA beneficiaries. About $3.3 billion of the new costs would result from increases in extended unemployment and training benefits, while the remaining expenses would be for increases in health care subsidy costs.

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN DIRECT SPENDING										
TAA for Workers										
Estimated Budget Authority	160	295	315	340	350	375	405	435	465	500
Estimated Outlays	65	205	295	325	345	365	385	415	445	480
FEHB Program Provisions										
Estimated Budget Authority	0	5	8	11	12	13	13	14	15	16
Estimated Outlays	0	5	8	11	12	13	13	14	15	16
Credit for Health Insurance Costs of Eligible Individuals										
Estimated Budget Authority	107	192	227	244	253	262	271	279	292	307
Estimated Outlays	107	192	227	244	253	262	271	279	292	307
Medicaid										
Estimated Budget Authority	-3	-3	-4	-4	-4	-5	-5	-5	-6	-6
Estimated Outlays	-3	-3	-4	-4	-4	-5	-5	-5	-6	-6
Total Changes in Direct Spending										
Estimated Budget Authority	264	489	546	591	611	645	684	723	766	817
Estimated Outlays	169	399	526	576	606	635	664	703	746	797
CHANGES IN REVENUES										
Credit for Health Insurance Costs of Eligible Individuals	-68	-123	-145	-156	-162	-168	-173	-179	-187	-196
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
TAA for Firms										
Estimated Authorization Level	16	16	16	0	0	0	0	0	0	0
Estimated Outlays	1	4	8	12	11	8	4	0	0	0
FEHB Program Provisions										
Estimated Authorization Level	*	5	8	10	11	12	13	14	14	15
Estimated Outlays	*	5	8	10	11	12	13	14	14	15
Total Changes in Authorizations										
Estimated Authorization Level	16	21	24	10	11	12	13	14	14	15
Estimated Outlays	1	9	16	22	22	20	17	14	14	15

Notes: TAA = Trade Adjustment Assistance; FEHB = Federal Employees Health Benefits program.

* = Less than $500,000.

Extended Unemployment and Training Benefits. Provisions in H.R. 3881 would increase costs of the TAA for workers program by allowing workers who produce services to be eligible for TAA, and by expanding eligibility criteria for the program. In addition, H.R. 3881 would increase the maximum amount of federal funds that could be used for training expenses for TAA beneficiaries.

Inclusion of Service Workers. CBO estimates that provisions in H.R. 3881 to include workers involved in the provision of services in the class of workers eligible for TAA benefits would increase outlays by $2.2 billion from 2005 through 2014. About $1.7 billion of these costs would be from ongoing unemployment compensation payments, while about $0.5 billion would be training costs.

CBO derived its estimates of potential new TAA caseload using data from the displaced workers supplement to the January 2002 Current Population Survey (CPS). From that survey, CBO estimated that in 2000 and 2001 nearly as many workers were displaced from jobs in the service-sector industries that are likely to be affected by outsourcing—such as computer and data processing—as were displaced from jobs in the manufacturing sector. However, workers displaced from those service-sector jobs were less likely to receive and exhaust unemployment insurance benefits than were workers displaced from manufacturing jobs. Moreover, because the service-sector workers are less likely to be unionized and would be less familiar with the process of applying for TAA certification, CBO assumes that service workers would be less likely to apply for and be certified as eligible for TAA.

CBO concluded that about 85,000 dislocated service workers would be certified as eligible for TAA in 2005 (assuming a full year of operation), rising to 130,000 in 2014. CBO estimates that about 15,000 individuals certified under the service worker provisions would begin to collect TAA cash and training benefits in 2005, rising to about 23,000 beneficiaries by 2014. CBO estimates an effective "take-up" rate of less than 20 percent beneficiaries out of the larger pool of certified individuals because in order to collect cash benefits under TAA, a certified individual must first exhaust his or her eligibility for regular unemployment compensation. Based on the CPS data for service workers, CBO expects that the majority of dislocated workers would find new employment before reaching that point.

Relaxation of Eligibility Criteria. H.R. 3881 would change the criteria for determining whether a class of workers lost their jobs because of increases in imports and shifts in production. Both changes would make it easier for workers to prove their dislocation was trade-related. These relaxed criteria were assumed in creating the estimate for service workers discussed above. For manufacturing workers, CBO estimates that these changes would increase the annual number of certified workers by about 7,000, or roughly 3 percent (resulting in about 1,900 beneficiaries each year). Taken together, these two changes would increase outlays by $235 million over the 2005-2014 period. About $185 million of this increase would be for cash benefits, with $50 million for increased training costs. The caseload assumptions are detailed below.

In lieu of other methods for determining whether an increase in imports of an article or service has occurred, the bill would allow the Secretary of Labor to accept an attestation from the dislocated workers' firm or subdivision, or from customers of the firm or subdivision representing at least 20 percent of the sales of the firm or subdivision, that they are obtaining the article or service from a foreign country. The Department of Labor (DOL) does not publish detailed data on petition denials. Anecdotal evidence suggests that around one-half of petitions may be denied in part because they could not prove an increase in imports had occurred. However, because petitions may be denied for multiple reasons, and because imports of specific articles may be declining, or may not be directly competitive with the article in question, CBO assumed that about 5 percent of denials (which have averaged about 80,000 individuals annually over the past three years) would be approved under the new criteria—for an addition of about 4,000 certified workers.

H.R. 3811 also would eliminate the requirement that a qualifying shift in production be to a specified country with which the United States has a free trade or other preferential agreement. Instead, the petitioners need only prove that they have been laid off from a company that has obtained or is likely to obtain services from another country, as indicated by an attestation from the original employer. Based on mass layoff data from Bureau of Labor Statistics, CBO estimates that roughly 6,000 dislocated workers could be newly eligible for TAA, based on the location of the production shift. However, because petitions may be denied for multiple reasons, CBO assumed about half of these petitioners would be made eligible under the new eligibility criteria, adding about 3,000 certified workers.

Other Expenses. Under current law, training expenses for TAA are capped at $220 million annually. This legislation would raise that cap to $440 million annually. CBO assumes that, if the cap is increased, spending would increase by about $1.2 billion over the 2005-2014 period. About half of these costs are accounted for by the program expansions discussed above. The remaining costs are due to the estimated unmet demand in the current-law population.

In addition, individuals who are certified as eligible for TAA also may receive up to $1,250 to assist with job search and relocation expenses. Also, certain older individuals may opt to receive alternative trade adjustment assistance through a temporary pilot program under provisions of current law. This benefit would subsidize employment for older individuals who otherwise qualify for TAA, and who accept lower paying employment prior to exhausting their regular unemployment benefits. CBO estimates that providing these benefits to the new beneficiaries under this bill would increase outlays by about $75 million over the 2005-2014 period.

CBO assumes that DOL would continue the practice of providing administrative funding to the states, which in the past has equaled about 15 percent of training costs. CBO estimates that these costs would total about $195 million over the 2005-2014 period.

Health Insurance Cost Credit. Under current law, TAA beneficiaries and certain recipients of PBGC pensions are eligible for a 65 percent refundable tax credit for the purchase of health insurance. By expanding eligibility for TAA, H.R. 3881 also would expand the eligibility for this tax credit. In addition, H.R. 3881 would allow TAA petitioners to receive the tax credit prior to having a final determination made on their eligibility. Furthermore, H.R. 3881 would increase the tax credit to 100 percent for the taxpayer's first eligible coverage month. Finally, the bill would allow eligible individuals living in states without a qualified health plan to buy into the federal employees health benefits (FEHB) program.

The Joint Committee on Taxation estimates that these changes would result in subsidy payments totaling $4 billion over the 2005-2014 period. About $2.4 billion of those costs would be paid in the form of refundable tax credits. The balance would be reflected as reduced revenue to the federal government.

H.R. 3881 would allow eligible individuals living in states without a qualified health plan to buy into the FEHB program. Under current law, certain individuals can apply the health care tax credit toward purchase of a "state qualified plan." Those plans may include coverage under a health insurance program offered for state employees and coverage offered through a qualified state high-risk pool. However, 23 states have not designated a qualified plan and, therefore, eligible individuals in those states cannot obtain health coverage using the tax credit. The bill would allow individuals who are eligible for TAA or PBGC pension benefits and who live in states without a qualified plan to buy health insurance through the FEHB program by paying 100 percent of the full premium amount.

CBO assumes that the inclusion of those individuals in the FEHB risk pool would increase average premiums under the FEHB program for health insurance of federal employees and annuitants. CBO estimates that TAA recipients cost roughly the same, on average, as the average FEHB enrollee currently covered by the program. However, CBO estimates that individuals eligible for PBGC pension benefits cost almost 30 percent more than the typical FEHB enrollee, and that including those individuals in the FEHB program would increase the average premium by about 0.1 percent. Because the federal government pays for a share of premiums for active workers and annuitants, the provision would affect federal spending.

Federal payments for the government share of premiums for annuitants are considered direct spending. CBO estimates that the federal share of higher premiums for annuitants resulting from the provision would increase outlays by $35 million over the 2005-2009 period and by $107 million through 2014. (The payments for premiums for active workers are discretionary, and are discussed below under the "Spending Subject to Appropriation" section.)

By expanding TAA, H.R. 3881 also would expand the number of people eligible for the Health Coverage Tax Credit, which may be used for the purchase of qualified health insurance coverage. JCT estimates that about 15,000 low-wage workers and their dependents would take the tax credit under the bill. CBO estimates that in the absence of the tax credit, about 2,000 of those individuals, mainly dependent children, will enroll in Medicaid under current law. Under the bill, those individuals instead would use the Health Coverage Tax Credit to enroll in a qualified health insurance plan. CBO estimates that enacting the bill would reduce Medicaid spending by $18 million over the 2005-2009 period and by $45 million over the 2005-2014 period.

Revenues

JCT estimates that enacting H.R. 3881 would increase outlays and decrease revenues to the federal government by extending the tax credit for the purchase of health insurance to more individuals. As discussed above, JCT estimates the tax subsidy to total about $4 billion over the 2005-2014 period. About $1.6 billion of these costs would be reflected as reduced revenues to the federal government.

Spending Subject to Appropriation

H.R. 3881 would expand eligibility for grants from the Department of Commerce's TAA for firms program to include companies in the service sector. In addition, the bill would double the authorization for these grants to $32 million per year for fiscal years 2005, 2006, and 2007. CBO estimates that implementing this provision would increase the need for appropriations by $16 million in 2005, and $48 million over the 2005-2009 period. Assuming appropriation of the authorized amounts, outlays would increase by $36 million from 2005 through 2009, and by $48 million from 2005 through 2014.

As discussed in the "Direct Spending" section above, CBO assumes that allowing eligible individuals living in states without a qualified health plan to buy into FEHB would increase the average premium charged under FEHB. Agency contributions toward health insurance premiums for active workers is subject to the availability of appropriated funds. CBO estimates that the federal share of higher premiums resulting from the provision would increase costs by $35 million over the 2005-2009 period and by $103 million through 2014, assuming appropriation of the necessary amounts.

H.R. 3881 would also require that the Office of Personnel Management and the Department of the Treasury conduct a study on how allowing individuals living in states without a qualified health plan to buy into the FEHB program would affect the offering of health benefits and premium rates under FEHB. The bill would also require that the Secretary of the Treasury submit a report to the Congress with recommendations on how to increase the number of eligible individuals who are covered by qualified health insurance under the program. CBO estimates that those reports would cost less than $500,000.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has reviewed the non-tax provisions of H.R. 3881 and determined that they contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act. Under voluntary agreements with the Secretary of Labor, states administer the trade adjustment assistance and transitional adjustment assistance programs in a manner similar to that of their unemployment insurance programs. Benefits for those programs are funded entirely by the federal government.

JCT has determined that the tax provisions in this bill would not impose any mandates on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

CBO has determined that the non-tax provisions in H.R. 3881 contain no private-sector mandates as defined in UMRA. JCT has determined that the tax provisions in this bill would not impose any mandates on the private sector.

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