June 16, 2003

Honorable John A. Boehner
Chairman
Committee on Education
and the Workforce
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Congressional Budget Office has estimated the effect on revenues of H.R. 660, the Small Business Health Fairness Act of 2003, as ordered reported by the Committee on Education and the Workforce on June 11, 2003. However, CBO has not yet completed the estimate of the effect of the bill on federal spending for Medicaid. We expect to provide you with a complete estimate shortly.

H.R. 660 would establish a certification process and regulatory structure for association health plans (AHPs). These entities, which would be regulated by the Department of Labor, could provide health plans to employers under different sets of rules than apply to insurers or other health plan arrangements that fall under state insurance regulation.

If H.R. 660 is enacted, CBO would expect a small net increase in total spending by employers on employer-sponsored health insurance. Such spending would increase as otherwise uninsured employees became insured through the new entities. Spending also would increase for those employers who continued to offer traditional, state-regulated plans because of a disproportionate tendency for higher-cost groups to remain with state-regulated plans, which are typically subject to rules that compress the range of premiums that can be charged across firms. Those spending increases would be partially offset by reduced spending among employers who found less expensive plans in the AHP market and chose to shift to those new plans instead of purchasing insurance in the traditional, state-regulated market, and among employers who responded to higher premiums for policies in the traditional market by dropping coverage. Thus, the composition of the total compensation packages of employees would shift toward non-taxable health benefits and away from taxable wages and salaries. CBO estimates that, as a result, total federal revenues would decrease by $3 million in 2004, by $60 million over the 2004-2008 period, and by $280 million over the 2004-2013 period. Of those amounts, Social Security payroll taxes, which are off-budget, account for about $1 million in 2004, $20 million over the 2004-2008 period, and $80 million over the 2004-2013 period.

CBO estimates that enacting H.R. 660 would result in a net increase of about 600,000 people with employment-based health insurance coverage by 2008. As a result, we expect that fewer people would be covered by Medicaid, and that Medicaid spending would decline. CBO has not yet estimated the effect of the bill on federal spending for Medicaid, but the amount of the outlay savings could approach or exceed the amount of the estimated revenue loss.

The Department of Labor would incur the costs of overseeing and regulating these plans. CBO has not completed an estimate of those costs, which would be subject to appropriation.

H.R. 660 would preempt a number of state laws that regulate health coverage and that would impose taxes on existing entities that become certified as AHPs. Those preemptions would be intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). The preemptions of state regulatory laws would not result in additional costs to state, local, or tribal governments. Limitations on state taxing authority, however, would result in a net decrease in state revenues of up to about $20 million in 2004. But, as a greater number of the uninsured became insured through association plans, states would realize a net increase of about $15 million in revenues from other taxes on such plans in 2008. The losses that states would face in the early years would not exceed the statutory threshold established in UMRA ($59 million in 2003, adjusted annually for inflation). H.R. 660 contains no private-sector mandates as defined in UMRA.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Alexis Ahlstrom (for changes in revenues), Leo Lex (for the state and local impact), and Stuart Hagen (for the private-sector impact).

Sincerely,

Douglas Holtz-Eakin
Director

cc: Honorable George Miller
Ranking Member