CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 5, 2007

H.R. 3668
TMA, Abstinence Education, and QI programs Extension Act of 2007

As cleared by the Congress on September 27, 2007, and signed by the President on September 29, 2007

SUMMARY

H.R. 3668 (enacted as Public Law 110-90) extends abstinence education programs, eligibility for transitional medical assistance (TMA) under Medicaid, and the authority for Medicaid to pay Medicare Part B premiums for certain qualifying individuals through December 31, 2007. The act further changes Medicaid by requiring more stringent verification of assets in certain eligibility determinations and delays by six months the implementation of a requirement to use tamper-resistant prescription pads. The act also provides additional funding for the Medicare physician assistance and quality initiative fund in fiscal years 2009 and 2013, and limits for two years the implementation of adjustments for changes in coding for services paid under the Medicare inpatient hospital prospective payment system (IPPS).

CBO estimates that H.R. 3668 will increase direct spending by $804 million in 2008, largely due to costs from limiting the adjustment for changes in coding under Medicare's IPPS and extending transitional medical assistance. However, the act will reduce direct spending by $4 million over the 2008-2012 period and by $3 million over the 2008-2017 period, mainly through savings due to the use of asset verification tools in Medicaid.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3668 is shown in the following table. The changes in direct spending fall within budget functions 500 (education, training, employment, and social services), 550 (health), and 570 (Medicare).

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
CHANGES IN DIRECT SPENDING												
Abstinence Education												
Estimated Budget Authority	13	0	0	0	0	0	0	0	0	0	13	13
Estimated Outlays	4	5	2	1	1	0	0	0	0	0	11	11
Transitional Medical Assistance												
Medicaid												
Estimated Budget Authority	154	34	1	*	*	*	*	*	*	*	189	189
Estimated Outlays	154	34	1	*	*	*	*	*	*	*	189	189
SCHIP												
Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-2	*	*	*	*	1	*	*	*	*	-2	-1
Qualifying Individuals (QI)												
Estimated Budget Authority	100	-19	-6	0	0	0	0	0	0	0	75	75
Estimated Outlays	100	-19	-6	0	0	0	0	0	0	0	75	75
Medicaid Asset Verification Demonstration												
Estimated Budget Authority	-30	-70	-90	-110	-120	-50	-10	0	0	0	-420	-480
Estimated Outlays	-30	-70	-90	-110	-120	-50	-10	0	0	0	-420	-480
Medicaid Tamper-resistant Prescription Pads												
Estimated Budget Authority	8	0	0	0	0	0	0	0	0	0	8	8
Estimated Outlays	8	0	0	0	0	0	0	0	0	0	8	8
Medicare Physician Assistance and Quality Fund												
Estimated Budget Authority	0	325	0	0	0	60	0	0	0	0	325	385
Estimated Outlays	0	325	0	0	0	60	0	0	0	0	325	385
Medicare Inpatient PPS coding												
Estimated Budget Authority	570	1,760	-590	-1,830	-100	0	0	0	0	0	-190	-190
Estimated Outlays	570	1,760	-590	-1,830	-100	0	0	0	0	0	-190	-190
Total Changes												
Estimated Budget Authority	815	2,030	-685	-1,940	-220	10	-10	*	*	*	0	0
Estimated Outlays	804	2,035	-683	-1,939	-219	11	-10	*	*	*	-4	-3

Notes: Components may not sum to totals because of rounding.

SCHIP = State Children's Health Insurance Program

* = between -$500,000 and $500,000.

BASIS OF ESTIMATE

The act contains provisions that will both increase and decrease direct spending. CBO estimates that the net impact will be savings of $4 million over the 2008-2012 period and $3 million over the 2008-2017 period.

Abstinence Education

H.R. 3668 appropriates an estimated $12.5 million for the abstinence education program for the first quarter of fiscal year 2008. Based on the program's past spending pattern, CBO estimates that this provision will increase outlays by $4 million in 2008 and by $11 million over the 2008-2012 period.

Transitional Medical Assistance

The act extends through December 31, 2007, the requirement that state Medicaid programs provide transitional medical assistance to certain beneficiaries—usually former recipients of funds from the Temporary Assistance for Needy Families program—who would otherwise lose eligibility because of increased earnings. This requirement would have expired on September 30, 2007.

CBO estimates that the extension of TMA will increase federal Medicaid spending by $154 million in 2008 and by $189 million over the 2008-2012 period. Under prior law, qualifying families would still have received four months of additional eligibility under a separate provision of Medicaid law. With TMA, those families will be entitled to up to 12 months of additional eligibility (or longer in a handful of states), even if their eligibility runs beyond December 31, 2007. As a result, the provision will increase spending in 2009 and 2010.

The extension also will affect spending in the State Children's Health Insurance Program (SCHIP), lowering outlays in 2008 and increasing them slightly in subsequent years. Without TMA, CBO anticipates that some families leaving welfare between October 1, 2007, and December 31, 2007, would have had incomes high enough to make their children ineligible for Medicaid, and that some of the children in those families would have enrolled in SCHIP instead. The extension of TMA will make those children eligible for Medicaid and (because children who are eligible for Medicaid cannot enroll in SCHIP) reduce SCHIP spending by $2 million in 2008.

Qualifying Individuals Program

The Medicaid program pays the Medicare Part B premium for Medicare beneficiaries who have incomes between 120 percent and 135 percent of the federal poverty level and limited assets. (These beneficiaries are commonly known as "qualifying individuals.") Medicaid had been authorized to pay those premiums through September 2007; H.R. 3668 extends that authority through December 2007. Using Medicaid administrative data and the Part B premium for calendar year 2007, CBO estimates that spending on premiums for qualifying individuals during the period covered by the act will total $100 million.

Medicaid will pay for the premiums (with the federal government paying the entire cost instead of the usual federal-state split) and then be reimbursed by Medicare. The additional Medicare payments for QI benefits under the act will be partly offset through higher premiums paid by all Medicare Part B beneficiaries. CBO estimates that the higher premiums will total $25 million (or 25 percent of the additional Medicare payments) and will be collected over the 2009-2010 period.

Medicaid Asset Verification Demonstration

Section 4 of the act authorizes the expansion of a demonstration program from the Supplemental Security Income program to Medicaid in New York and New Jersey. The program uses web-based techniques to identify assets that might otherwise not be discovered through the eligibility-determination process. Based on information from the Centers for Medicare & Medicaid Services, CBO expects that the policy will result in denial of eligibility for some people and reduced enrollment in Medicaid in those states. CBO estimates that this provision will reduce federal outlays by $420 million over the 2008-2012 period and $480 million over the 2008-2017 period.

Medicaid Tamper-resistant Prescription Pads

Section 5 of the act delays by six months the requirement that providers use prescription pads that are tamper-resistant for non-electronic, hand-written prescriptions executed after September 30, 2007, in order to receive reimbursement under Medicaid. Because CBO expects that implementation of this requirement will decrease spending on prescription drugs, CBO estimates that a delay will increase outlays by $8 million in 2008.

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Medicare Physician Assistance and Quality Initiative Fund

Section 6 of the act makes available $325 million for 2009 and $60 million for 2013 for the Secretary of Health and Human Services to use for initiatives related to physician payments and quality improvements in Medicare. CBO estimates those amounts will be spent in the year they are made available.

Medicare Inpatient PPS Coding

Section 7 of the act reduces the adjustments to standardized payments under Medicare's inpatient prospective payment system from -1.2 percent to -0.6 percent in fiscal year 2008 and from -1.8 percent to -0.9 percent in fiscal year 2009. The provision also will require a retrospective analysis of claims data to evaluate the extent of the changes in hospitals' documentation and coding practices in response to the adoption of Medicare Severity Diagnosis-Related Groups (MS-DRGs). In addition, the Secretary of Health and Human Services will be required to make appropriate adjustments to the IPPS standardized amounts during fiscal years 2010 through 2012 to ensure that the total IPPS payments made during fiscal years 2008 and 2009 did not violate the budget neutrality requirement. CBO estimates that this provision will increase outlays by $570 million in 2008 and by $1.9 billion in 2009, and reduce outlays by $190 million over the 2008-2012 period.

Those savings result from an interaction of changes in payments to hospitals with payments for beneficiaries enrolled in Medicare Advantage plans. CBO estimates that the increase in payments to hospitals in 2008 and 2009 will equal the reductions in payments to hospitals in 2010 and 2011, so there will be no net change in Medicare payments to hospitals over the 2008-2012 period. However, those changes in payments for services in the fee-for-service sector will affect the "benchmarks" that are used to limit how much Medicare will pay Medicare Advantage plans for Medicare-covered services and to establish how much Medicare pays those plans for benefits that Medicare does not cover in the fee-for-service sector. Compared to prior law, those benchmarks will be higher in calendar year 2009 and lower in both 2010 and 2011. (The benchmarks for 2008 have already been set and will not be affected by this legislation.) CBO estimates that the savings from the lower benchmarks in calendar years 2010 and 2011 will exceed the cost of the higher benchmarks in 2009 by $190 million.

ESTIMATE PREPARED BY:

Abstinence Education: Jonathan Morancy
Medicaid: Jeanne De Sa, Eric Rollins, Robert Stewart, Tim Gronniger
Medicare: Shinobu Suzuki

ESTIMATE APPROVED BY:

Keith J. Fontenot
Deputy Assistant Director for Health and Human Resources,
Budget Analysis Division