



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 11, 2011

### **H.R. 1683** **State Flexibility Act**

*As introduced in the House of Representatives on May 3, 2011*

#### **SUMMARY**

H.R. 1683 would repeal the maintenance of effort (MOE) requirements for Medicaid and the Children's Health Insurance Program (CHIP) included in the American Recovery and Reinvestment Act of 2009 (ARRA) and the Patient Protection and Affordable Care Act (PPACA). The MOE provisions require, as a condition of receiving federal Medicaid and CHIP payments, that states maintain the eligibility standards, methodologies and procedures that were in place prior to the passage of PPACA and ARRA with respect to children and adults in Medicaid and CHIP.

CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting the legislation would reduce deficits by approximately \$2.8 billion over the 2012-2016 period and by about \$2.1 billion over the 2012-2021 period. Those figures represent the net effect of changes in direct spending and revenue stemming from the effect of the bill on enrollment in Medicaid, CHIP, health insurance purchased through exchanges, and employer-based health insurance.

Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues. CBO estimates that implementing H.R. 1683 would not have any significant impact on spending subject to appropriation.

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of H.R. 1683 is shown in the following table. The costs of this legislation fall within budget function 550 (health).

	By Fiscal Year, in Billions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
<b>CHANGES IN DIRECT SPENDING</b>												
<b>Medicaid</b>												
Estimated Budget Authority	-0.4	-0.8	-0.2	0	0	0	0	0	0	0	-1.5	-1.5
Estimated Outlays	-0.4	-0.8	-0.2	0	0	0	0	0	0	0	-1.5	-1.5
<b>CHIP</b>												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	*	-0.1	*	-2.0	-4.4	-3.4	-0.6	0.2	0.7	0.9	-6.5	-8.8
<b>Exchange Subsidies</b>												
Estimated Budget Authority	0	0	*	1.1	2.0	1.7	0.4	0.1	-0.3	-0.3	3.2	4.8
Estimated Outlays	0	0	*	1.1	2.0	1.7	0.4	0.1	-0.3	-0.3	3.2	4.8
<b>Net Changes <sup>a</sup></b>												
Estimated Budget Authority	-0.4	-0.8	-0.2	1.1	2.1	1.8	0.5	0.1	-0.3	-0.3	1.8	3.5
Estimated Outlays	-0.5	-0.9	-0.2	-0.8	-2.4	-1.6	-0.2	0.3	0.3	0.6	-4.8	-5.4
<b>CHANGES IN REVENUES <sup>b</sup></b>												
Estimated Revenues	*	*	*	-0.6	-1.3	-1.2	-0.4	-0.1	0.2	0.2	-2.0	-3.3
On-budget	*	*	*	-0.5	-1.1	-0.9	-0.3	-0.1	0.1	0.1	-1.6	-2.6
Off-budget <sup>c</sup>	*	*	*	-0.1	-0.2	-0.2	-0.1	*	*	*	-0.4	-0.7
<b>NET CHANGE IN THE DEFICIT</b>												
Net Increase or Decrease (-) in the Deficit	-0.4	-0.9	-0.2	-0.2	-1.0	-0.5	0.2	0.4	0.2	0.4	-2.8	-2.1
On-budget	-0.4	-0.9	-0.2	-0.3	-1.3	-0.7	0.1	0.4	0.2	0.4	-3.2	-2.8
Off-budget <sup>c</sup>	*	*	*	0.1	0.2	0.2	0.1	*	*	*	0.4	0.7

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

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

\* = increase or decrease in direct spending or revenues of less than \$50 million.

a. Changes in direct spending include outlays resulting from changes in revenue.

b. Positive numbers indicate increases in revenue and negative numbers indicate reductions in revenue.

c. All off-budget effects come from changes in revenues. (The payroll taxes for Social Security are classified as "off-budget".)

## BASIS OF ESTIMATE

H.R. 1683 would repeal MOE requirements for Medicaid and CHIP. Specifically, the bill would repeal section 5001(f) of ARRA, as extended by Public Law 111-226, which requires states to maintain Medicaid eligibility levels, methodologies, and procedures in place as of July 1, 2008, until June 30, 2011, in order to receive enhanced federal matching

funds provided under ARRA. H.R. 1683 would also repeal Medicaid MOE requirements in section 1902(gg) of the Social Security Act, enacted under PPACA, which require states to maintain eligibility levels, methodologies, and procedures in place prior to PPACA for adults on Medicaid until state health insurance exchanges are operational and for children on Medicaid until the end of 2019.

In addition, H.R. 1683 would repeal similar MOE requirements for CHIP, included in section 2105(d)(3) of the Social Security Act, that were enacted under PPACA. Current law requires states to maintain CHIP eligibility standards, methodologies, and procedures in place as of the enactment of PPACA until the end of 2019.

### **Impact on Insurance Coverage**

CBO and JCT estimate that enacting H.R. 1683's repeal of MOE requirements would reduce enrollment and spending for both Medicaid and CHIP and raise enrollment in and spending for health insurance plans offered through health insurance exchanges. Further, CBO and JCT estimate that some of those adults and children who are no longer eligible for Medicaid and CHIP would enroll in employment-based insurance or become uninsured.

Effects on sources and extent of health insurance coverage would vary from year to year. For example, in 2013, if H.R. 1683 was enacted, CBO estimates a reduction in Medicaid and CHIP enrollment of about 400,000 people, about two-thirds of whom are children. Approximately 300,000 of those individuals would become uninsured and approximately 100,000 would enroll in employment-based coverage. In 2016, CBO estimates a reduction in CHIP enrollment of about 1.7 million people. Enrollment in exchanges and in employment-based coverage would each be expected to increase in that year by about 700,000. Relative to current law projections, approximately 300,000 individuals would become uninsured in 2016, CBO estimates.

### **Impact on Federal Spending and Revenues**

Enacting H.R. 1683 would reduce direct spending by an estimated \$5.4 billion over the next 10 years. Those figures represent the effect of spending changes in Medicaid and CHIP and include the share of changes in spending for premium and cost-sharing subsidies for health insurance offered through health insurance exchanges that are classified as outlays.<sup>1</sup>

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<sup>1</sup> Subsidies for health insurance premiums are structured as refundable tax credits; the portions of such credits that exceed taxpayers' liabilities are classified as outlays, while the portions that reduce tax payments are reflected in the budget as reductions in revenues.

In addition, enacting H.R. 1683 is estimated to reduce revenues by approximately \$3.3 billion over the 2012-2021 period because of changes in the number of people receiving subsidies for health insurance and the number of people insured through an employer. CBO and JCT estimate a reduction in revenues because more people would be expected to enroll in employment-based coverage resulting in a change in the mix of compensation provided to workers between taxable wages and salaries and nontaxable health insurance benefits. In addition, revenues are also expected to decline because of the reductions in tax liability for individuals and families that receive exchange subsidies.

For this estimate, CBO assumes that the legislation will be enacted near the end of fiscal year 2011.

**Impact on Medicaid.** CBO estimates that Medicaid spending would decline by roughly \$1.5 billion over the 2012-2016 and 2012-2021 periods. Through the first fiscal quarter of 2014, CBO expects that state Medicaid programs would tighten eligibility processes and procedures and, to a lesser extent, reduce program eligibility thresholds. These actions would reduce the number of children and adults who are able to enroll in and receive coverage through Medicaid.

CBO expects that H.R. 1683 would have no significant effect on the number of adults or children eligible for Medicaid after calendar year 2013. CBO's Medicaid baseline already assumes that after calendar year 2013, almost all states will eliminate Medicaid coverage for adults with income above 138 percent of poverty. Therefore, H.R. 1683 would have no significant effect on coverage for adults after that point in time.

Beginning in 2014, CBO does not expect H.R. 1683 to have a significant effect on the number of children eligible for Medicaid because PPACA requires states to cover all individuals up to 138 percent of the federal poverty level—making those children losing Medicaid because of lowered eligibility thresholds permitted under H.R. 1683 eligible for Medicaid again. In addition, new integrated eligibility systems required under PPACA are expected to reduce opportunities for states to make changes to the processes and procedures for determining Medicaid eligibility starting in 2014.

**Impact on CHIP.** H.R. 1683 would have a significant impact on state CHIP programs. CBO estimates that CHIP spending would decline by approximately \$6.5 billion over the 2012-2016 period and by roughly \$8.8 billion over the 2012-2021 period. Between 2012 and 2014, CBO expects that CHIP programs would tighten eligibility processes and procedures in a manner similar to Medicaid programs. Once state exchanges become available in 2014, states would be expected to weigh the advantages and disadvantages of continuing CHIP coverage (with its required state-matching payments) compared with exchange coverage for which subsidies are paid with 100 percent federal funds. CBO

estimates some states will cease participation in CHIP and allow those children who are eligible for exchange subsidies to obtain coverage through the insurance exchanges.

Under current law, states will have an incentive to reduce or eliminate CHIP after the MOE requirement expires in 2019 because many children who qualify for CHIP will, in the absence of that program, be eligible for subsidies to purchase health insurance through exchanges. Subsidies for coverage provided through exchanges is funded completely by the federal government while states have to share in the cost of CHIP. However, some states may be reluctant to eliminate their CHIP programs because not everybody will be eligible for exchange subsidies and enrollees would be required to pay a larger share of the cost for insurance through exchanges as compared to CHIP. In its baseline, CBO projects that about half of the states will end their programs after 2019. CBO estimates that H.R. 1683 would accelerate this effect so that by the end of 2016 half of the states would cease participating in the CHIP program.

Under the bill, CBO expects that the states choosing to discontinue CHIP coverage would do so beginning in 2015, after ensuring that exchange plans have sufficient capacity to absorb children transferring from CHIP. For example, in 2015 CBO estimates that one-quarter of the states would cease participation in CHIP and in 2016 another one-quarter of the states would do so. Further, CBO estimates that the remaining states would reduce eligibility levels for their programs.

**Impact on Other Coverage.** Under current law, individuals who are eligible for Medicaid or CHIP or who are offered insurance through an employer are not eligible for subsidies to purchase insurance through exchanges. Under H.R. 1683, adults and children who are no longer eligible for Medicaid and CHIP would become eligible for subsidies in the health insurance exchanges to the extent that they meet other applicable eligibility requirements. As a result, CBO and JCT estimate payments for premium and cost-sharing subsidies (which affect both revenues and direct spending) would be increased by a total of about \$4.4 billion over five years and by roughly \$6.6 billion over 10 years. Of these amounts, roughly \$3.2 billion over the 2012-2016 period and \$4.8 billion over the 2012-2021 period would be classified as an increase in outlays; about \$1.2 billion over the 2012-2016 period and \$1.8 billion over the 2012 -2021 period would be classified as a reduction in revenues.

CBO and JCT estimate that the remainder of adults and children who are no longer eligible for Medicaid and CHIP would either enroll in employer-based coverage or become uninsured. Other changes to revenues occur because as enrollment in employer-based coverage rises, changes in the mix of taxable and tax-preferred compensation are expected to occur. That effect yields a reduction in revenue of approximately \$0.8 billion over five years and \$1.5 billion over 10 years.

CBO and JCT estimate that the total revenue impact of those effects would be a reduction in revenue of approximately \$2.0 billion over the 2012-2016 period and about \$3.3 billion over the 2012-2021 period. Approximately \$0.4 billion of those revenues over the 2012-2016 period and \$0.7 billion over the 2012-2021 period would be payroll taxes collected for Social Security, and therefore, would be off-budget.

## PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

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### CBO Estimate of Pay-As-You-Go Effects for H.R. 1683, as introduced in the House of Representatives on May 3, 2011

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	By Fiscal Year, in Millions of Dollars											2011-	2011-
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2016	2021
<b>NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT</b>													
Statutory Pay-As-You-Go Impact	0	-449	-905	-221	-297	-1,290	-709	131	376	181	424	-3,162	-2,759
<b>Memorandum:</b>													
Changes in Outlays	0	-451	-910	-228	-832	-2,359	-1,630	-162	310	328	573	-4,780	-5,360
Changes in Revenues	0	-2	-5	-8	-535	-1,069	-921	-293	-65	147	149	-1,618	-2,601

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Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

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## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1683 contains no intergovernmental mandates as defined in UMRA. CBO expects that the bill's enactment would benefit a number of states that are currently prohibited from implementing changes in their Medicaid and CHIP programs. Over the 2012-2021 period, CBO estimates that states would implement changes in those programs that would reduce state spending by approximately \$2.5 billion.

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