CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 12, 2016

H.R. 670

Special Needs Trust Fairness and Medicaid Improvement Act

As ordered reported by the House Committee on Energy and Commerce on July 13, 2016

SUMMARY

H.R. 670 would amend title XIX of the Social Security Act to make various changes to the Medicaid program. The bill would permit qualified individuals to establish their own special needs trusts; extend access to tobacco cessation services to mothers of newborns; eliminate federal matching funds for prescription drugs used for cosmetic purposes; and provide funding for the program's improvement fund.

CBO estimates that enacting H.R. 670 would reduce direct spending, on net, by $5 million over the 2017-2026 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending. H.R. 670 would not affect revenues.

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2027.

H.R. 670 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 effect of H.R. 670 is shown in the following table. The costs of this legislation fall within budget functions 550 (health) and 600 (income security).

	By Fiscal Year, in Millions of Dollars											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
INCREASES OR DECREASES (-) IN DIRECT SPENDING												
Supplemental Needs Trusts												
Estimated Budget Authority	1	1	1	1	1	1	1	1	1	1	4	9
Estimated Outlays	1	1	1	1	1	1	1	1	1	1	4	9
Tobacco Cessation Services for Mothers of Newborns												
Estimated Budget Authority	0	0	1	1	1	1	1	1	2	2	4	11
Estimated Outlays	0	0	1	1	1	1	1	1	2	2	4	11
Agents Used for Cosmetic Purposes or Hair Growth												
Estimated Budget Authority	-2	-4	-4	-5	-5	-5	-6	-6	-6	-7	-20	-49
Estimated Outlays	-2	-4	-4	-5	-5	-5	-6	-6	-6	-7	-20	-49
Medicaid Improvement Fund												
Budget Authority	0	0	0	0	10	14	0	0	0	0	10	24
Estimated Outlays	0	0	0	0	10	14	0	0	0	0	10	24
Total Changes												
Estimated Budget Authority	-1	-3	-2	-2	7	11	-3	-3	-4	-4	-2	-5
Estimated Outlays	-1	-3	-2	-2	7	11	-3	-3	-4	-4	-2	-5

Note: Numbers may not add totals because of rounding.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 670 will be enacted near the end of fiscal year 2016.

Supplemental Needs Trusts

H.R. 670 would permit non-elderly individuals with disabilities to establish their own special needs trust without having to file a petition with a court. A special needs trust is a specific type of trust defined in Medicaid statute that can only be established on behalf of non-elderly individuals with disabilities. Assets held in a special needs trust are not counted toward asset tests that establish eligibility for Medicaid or Supplemental Security Income (SSI).

Under current law, a special needs trust can only be established by parents, grandparents, legal guardians, or a court. Individuals wanting to set up special needs trusts for themselves have to file a petition with a court, which can take many months. CBO expects that this provision would reduce the amount of time it would take to establish special needs trusts since individuals would no longer have to file a petition with a court to do so. As a result, individuals who establish trusts independently would become eligible for Medicaid and SSI sooner than they would have under current law and would receive several more months of Medicaid and SSI benefits. Feedback from stakeholders indicates that the current requirement to file a petition with a court does not deter interested individuals from establishing special needs trusts. Therefore, CBO does not expect the bill to increase the number of trusts established.

Based on an analysis of information from the Department of Health and Human Services, the Social Security Administration, and other stakeholders, CBO estimates that permitting qualified individuals to establish their own special needs trust would increase the number of months during which such individuals receive benefits by 3 months, on average, and would cost about $9 million over the 2017-2026 period. That amount includes $6 million for additional months of Medicaid coverage and $3 million for additional months of SSI benefits.

Tobacco Cessation Services for Mothers of Newborns

Current law requires state Medicaid programs to provide coverage of counseling and pharmacotherapy for to help pregnant women stop smoking. H.R. 670 would extend access to such services to mothers of newborns through the child's first birthday. Based on an analysis of administrative data from the Centers for Medicare and Medicaid Services (CMS) and on data from the Center for Disease Control and Prevention regarding the use of cigarettes by pregnant and postpartum women, CBO projects that the provision would increase the number of women receiving such services by less than 10,000 per year and that about 10 percent of those women would quit smoking as a result. CBO estimates that implementing this provision would increase direct spending by $12 million over the 2017-2026 period, on net. That amount includes increased Medicaid spending for tobacco cessation services and reduced Medicaid spending for children who would no longer be exposed to secondhand smoke.

Agents Used for Cosmetic Purposes or Hair Growth

H.R. 670 would eliminate federal Medicaid matching funds for prescription drugs used for cosmetic purposes or hair growth unless they are determined to be medically necessary. Currently, states are not required to cover these types of prescription drugs. CBO analyzed Medicaid data from CMS and found that very few prescriptions for drugs used for cosmetic purposes or hair growth are paid for by state Medicaid programs. Based on this analysis, CBO estimates that eliminating federal Medicaid matching funds for these drugs would reduce direct spending by $49 million over the 2017-2026 period.

Medicaid Improvement Fund

H.R. 670 would provide $10 million in mandatory funding to the Medicaid Improvement Fund (MIF) in 2021 and an additional $14 million in 2022, which would be available to the Secretary of Health and Human Services to improve federal management of the Medicaid program. Activities that could be funded by the MIF include oversight of contracts and contractors, and evaluation of demonstration programs. CBO estimates that this provision would increase spending by $24 million over the 2017-2026 period.

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 that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 670, as reported by the House Committee on Energy and Commerce on July 13, 2016.

	By Fiscal Year, in Millions of Dollars												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016-2021	2016-2026
NET INCREASE OR DECREASE (-) IN THE BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	0	-1	-3	-2	-2	7	11	-3	-3	-4	-4	-2	-5

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2027.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 670 contains no intergovernmental or private-sector mandates as defined in UMRA. CBO estimates that the changes to Medicaid that would exclude income from some settlement trusts when determining eligibility and that would extend coverage for tobacco cessation services would result in additional spending by states in the program of $15 million over the 2017-2026 period. The bill also would eliminate the eligibility of cosmetic and hair growth treatments for reimbursement under Medicaid. Consequently, CBO estimates that spending in the program for those treatments would decline by about $35 million over the 2017-2026 period.

For large entitlement programs like Medicaid, UMRA defines an increase in the stringency of conditions or a cap on federal funding as an intergovernmental mandate if the affected governments lack authority to offset those costs while continuing to provide required services. Because states have flexibility within the Medicaid program to offset their financial and programmatic responsibilities in order to reduce costs, CBO concludes that the new conditions and resulting costs associated with enacting the bill would not constitute an intergovernmental mandate.

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