CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

November 1, 2013

Honorable Jeff Sessions
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Senator:

As you requested, the Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) are providing additional information on the budgetary effects of section 142 of H.J. Res. 59, as passed by the House of Representatives on September 30, 2013. The provision would expand the number of executive branch and Congressional employees who will no longer be eligible to receive their health benefits through the Federal Employees Health Benefits (FEHB) program. In addition, it would eliminate the employer contribution from the government for the entire group of executive branch and Congressional employees who, beginning in 2014, will no longer be eligible to receive their health benefits through the FEHB program.

Currently, federal employees are eligible to purchase health insurance through the FEHB program and to receive an employer contribution from the government toward their insurance premiums. Upon retirement, federal employees who have been enrolled in the FEHB program for the most recent five years are eligible to continue to participate in that program with access to the same federal contribution towards their premiums as active workers.

Under current law, starting in 2014, Members of Congress and certain Congressional staff—defined as employees of the official office of a Member of Congress—will no longer be eligible for health benefits under the FEHB program. Those Members and staff will be eligible to purchase health insurance offered through exchanges and will continue to receive their employer contribution from the government toward their insurance premiums when enrolled in the District of Columbia’s small business exchange. People who retire in 2014 and thereafter may return to the FEHB program and will be eligible to receive their employer contribution towards the premium for their retiree health plan.

Section 142 of H.J. Res. 59 would about double, to 18,000, the number of federal employees who would be excluded from participation in the FEHB program by adding to that category all Congressional office and committee staffs, the President, the Vice

President, and certain political appointees. Those employees would be eligible to purchase health insurance through individual exchanges, without an employer contribution from the government, and, if their income was low enough, to qualify for the premium (and potentially cost-sharing) subsidies that will be available under current law to other low-income enrollees.

Overall Budgetary Impact of the Legislation

CBO estimates that implementing section 142 of H.J. Res. 59 would yield discretionary savings, assuming appropriation actions consistent with the provision, of $833 million over the 2014-2018 period and about $2 billion over the 2014-2023 period (see “Changes in Spending Subject to Appropriation” in the attached table). Those potential reductions in discretionary spending would occur primarily because the federal government would no longer provide an employer contribution for health insurance premiums for the federal employees who would be excluded from FEHB beginning in 2014. Under current law, that employer contribution will come from appropriations for personnel expenses for the various federal offices in which such employees work.

Enacting the legislation also would increase direct spending and reduce revenues. Together, changes in those two components of the budget would increase the deficit by $474 million over the 2014-2018 period and by $978 million over the 2014-2023 period, CBO and JCT estimate. Of the increase in the deficit between 2014 and 2023, $84 million would be off-budget—comprised of an increase of $20 million in the Postal Service’s costs for health insurance premiums and a loss of $63 million in Social Security revenues. Because the legislation would affect direct spending and revenues, pay-as-you-go procedures apply. (Only the on-budget effects on direct spending and revenues are considered for pay-as-you-go purposes.)

Pursuant to section 311 of the Concurrent Resolution on the Budget for Fiscal Year 2009 (S. Con. Res. 70), CBO and JCT estimate that changes in direct spending and revenues from enacting the legislation would not increase the on-budget deficit by more than $5 billion in any of the four 10-year periods starting in 2023.

Effects on Spending Subject to Appropriation

Eliminating the government’s employer contribution toward health insurance premiums for approximately 18,000 active federal employees would reduce outlays for such premiums by approximately $2 billion over the 2014-2023 period, CBO estimates. The government’s contributions for those premiums for active employees are subject to appropriation and classified as discretionary spending.

Offsetting that reduction, in part, would be an increase in the government's cost for premiums for the remaining employees in the FEHB program. CBO expects that the additional employees affected by the legislation would be younger and therefore less costly on average than those that remain in the FEHB program, leading to an increase in average costs and premiums. That effect on premiums for employees remaining in the program would increase spending subject to appropriation by an estimated $41 million over the 2015-2023 period.

Effects on Direct Spending
The net effect of section 142 of H.J. Res 59 on direct spending would be an increase in spending of $328 million over the 2014-2018 period and $638 million over the 2014-2023 period. That increase would stem from a net increase in spending for health insurance premiums for retirees in the FEHB program, a net increase in spending for federal retirement benefits, and an increase in subsidies for health insurance purchased through exchanges.

Federal Employees' and Retirees' Health Benefits. The federal government pays part of the health insurance premiums for federal retirees who participate in the FEHB program. Those federal contributions are direct spending; they do not require annual appropriations.

The net effect of the legislation on direct spending in the FEHB program would be an increase in spending of $26 million over the 2014-2023 period. That increase is driven by two effects:

- First, the provision would provide an incentive for retirement-eligible Congressional and executive branch employees to retire in time to avoid losing access to their employer contributions for health insurance. CBO estimates that approximately 3,000 federal employees who would not otherwise retire before the beginning of calendar year 2014 would do so under this legislation. Retirements that take place earlier than they would under current law would raise mandatory spending on annuitants' health benefits in the FEHB program in the first few years during the 2014–2023 period.

- Second, because of the increase in FEHB premiums discussed above, the legislation would further raise the government's spending on annuitants' health benefits and would affect the Postal Service's spending for health benefits of both active employees and annuitants (which is also direct spending, though off-budget).

Partly offsetting those increases would be a reduction in costs for future retirees who would no longer receive a government contribution for their health insurance premiums when they retire under the legislation.

Federal Subsidies for Health Insurance Purchased Through Exchanges. Under section 142 of H.J. Res. 59, employees who would no longer qualify for the FEHB program would be able to purchase health insurance offered through exchanges. Those whose income was below 400 percent of the federal poverty level and who met other eligibility criteria would be able to receive premium tax credits and possibly cost-sharing subsidies for that coverage. CBO estimates that about 70 percent of affected employees would go into an exchange and of those, roughly two-thirds would be eligible for exchange subsidies. Subsidies for health insurance premiums are structured as refundable tax credits; the portions of such credits that exceed taxpayers' liabilities are classified as outlays, whereas the portions that reduce tax payments are reflected in the budget as reductions in revenues. CBO and JCT estimate that the outlay portion of the increased payments for premium subsidies and the increased cost-sharing subsidies would total $530 million over the 2014-2023 period.

Federal Retirement Benefits. Federal workers who would retire earlier than under current law would also begin to receive their retirement annuity earlier. However, their annuity payments would be smaller than the amount they would receive with a later retirement date. On net, CBO estimates that federal retirement payments would increase by $69 million over the 2014-2018 period and by $61 million over the 2014-2023 period.

Effects on Revenues

CBO and JCT estimate that the net effect of section 142 of H.J. Res. 59 on revenues would be a decrease of $146 million over the 2014-2018 period and $340 million over the 2014-2023 period.

The decrease in revenues would occur in part because a portion of the increase in premium subsidies for insurance purchased through exchanges would be recorded as a reduction in revenues. In addition, the legislation would result in more premiums being paid for employer-based health insurance because some affected federal employees would obtain coverage under their spouse's employer-based policy, with the spouse shifting from self to family coverage. Because CBO and JCT expect that total compensation would be roughly unchanged, that increase in the amount of compensation that is excluded from tax would reduce taxable wages and salaries.

Revenues would also decrease by a smaller amount because federal employees who retire early will no longer be making contributions toward their future retirement benefits.

Those contributions—which are recorded in the federal budget as revenues—would decline as a result.

These declines in revenue would be partially offset by a revenue increase because employees who participate in the FEHB program under current law pay for their share of the premium with tax-excluded contributions. Under H.J. Res. 59, CBO and JCT expect that the federal employees affected by this provision would shift a portion of those amounts to other tax-excluded payments, such as contributions to retirement plans, but a portion would become taxable wages.

Finally, because some of the people losing FEHB coverage would not obtain insurance elsewhere, those revenue decreases would be offset in part by a small increase in the amount of penalties levied on people who are uninsured.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Patty Murray
Chairman

Honorable Paul Ryan
Chairman
House Committee on the Budget

Honorable Chris Van Hollen
Ranking Member

Honorable Hal Rogers
Chairman
House Committee on Appropriations

Honorable Nita Lowey
Ranking Democratic Member

November 1, 2013

Estimated Budgetary Effects of Section 142 of H.J. Res. 59, a Provision to Amend the Patient Protection and Affordable Care Act Regarding Health Insurance Benefits for Members of Congress, Congressional Staff, and Certain Members of the Executive Branch, as passed by the House of Representatives on September 30, 2013

	By Fiscal Year, in Millions of Dollars											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
CHANGES IN DIRECT SPENDING												
FEHB Program												
On-Budget												
Estimated Budget Authority	17	7	2	2	1	1	0	0	-2	-2	30	26
Estimated Outlays	17	7	2	2	1	1	0	0	-2	-2	30	26
Off-Budget [a]												
Estimated Budget Authority	0	1	2	2	2	2	2	3	3	3	7	20
Estimated Outlays	0	1	2	2	2	2	2	3	3	3	7	20
Health Insurance Exchanges												
Estimated Budget Authority	33	44	45	48	52	54	58	62	66	69	221	530
Estimated Outlays	33	44	45	48	52	54	58	62	66	69	221	530
Federal Retirement Benefits												
Estimated Budget Authority	19	32	13	5	0	-1	-2	-2	-2	-2	69	61
Estimated Outlays	19	32	13	5	0	-1	-2	-2	-2	-2	69	61
Total Changes in Direct Spending												
Estimated Budget Authority	68	85	63	57	55	56	59	62	65	68	328	638
Estimated Outlays	68	85	63	57	55	56	59	62	65	68	328	638
CHANGES IN REVENUES												
Estimated Revenues [b]	-23	-30	-30	-31	-32	-34	-35	-37	-39	-48	-146	-340
On-Budget	*-20*	*-25*	*-24*	*-25*	*-26*	*-27*	*-29*	*-30*	*-31*	*-40*	*-119*	*-277*
Off-Budget	*-4*	*-5*	*-6*	*-6*	*-6*	*-7*	*-7*	*-7*	*-8*	*-8*	*-26*	*-63*
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on Deficit	92	115	93	88	87	90	94	99	104	117	474	978
On-Budget	*88*	*108*	*85*	*80*	*79*	*81*	*85*	*90*	*94*	*105*	*440*	*894*
Off-Budget	*4*	*7*	*7*	*8*	*8*	*9*	*9*	*10*	*11*	*11*	*34*	*84*
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
FEHB Program												
Estimated Authorization Level	-121	-164	-172	-182	-194	-206	-220	-234	-249	-265	-833	-2,008
Estimated Outlays	-121	-164	-172	-182	-194	-206	-220	-234	-249	-265	-833	-2,008

Note: Numbers may not sum to totals because of rounding; FEHB = Federal Employees Health Benefits.

a. Off-budget direct spending effects indicate changes in spending by the United States Postal Service.

b. Negative numbers indicate a loss in tax revenues. Off-budget revenue effects represent changes in receipts of payroll taxes for Social Security.