CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 1, 1998

H.R. 1836
Federal Employees Health Care Protection Act of 1998

As ordered reported by the Senate Committee on Governmental Affairs on April 1, 1998

SUMMARY

H.R. 1836 would modify the administration of the Federal Employees Health Benefits (FEHB) program, transfer the health coverage of retirees and certain active employees of the Federal Deposit Insurance Corporation (FDIC) and the Board of Governors of the Federal Reserve to the FEHB program, and raise the pay of certain physicians employed by the federal government. CBO estimates that the legislation would reduce direct spending by $54 million and federal revenues by $7 million over the 1999-2003 period. Consequently, pay-as-you-go procedures would apply to the legislation. In addition, CBO estimates that implementing H.R. 1836 would increase discretionary outlays by $30 million over the 1999-2003 period, assuming appropriation of the necessary amounts.

H.R. 1836 would expand a preemption of state and local authority to regulate health care plans that provide coverage under FEHB. This preemption would be considered a mandate under the Unfunded Mandates Reform Act (UMRA). However, because the preemption would simply limit the application of state law in some circumstances, CBO estimates that any costs to state or local governments arising from this mandate would be minimal. H.R. 1836 contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1836 is shown in the following table. This estimate assumes that the legislation will be enacted by the start of fiscal year 1999. The legislation would affect governmental receipts and outlays in several budget functions.

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
CHANGES IN DIRECT SPENDING						
FDIC						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	160	-14	-15	-18	-20
FEHB						
Estimated Budget Authority	0	-178	6	7	8	10
Estimated Outlays	0	-178	6	7	8	10
Total Changes in Direct Spending						
Estimated Budget Authority	0	-178	6	7	8	10
Estimated Outlays	0	-18	-8	-8	-10	-10
CHANGES IN REVENUES						
FEHB Coverage for Federal Reserve						
Estimated Revenues	0	-11	1	1	1	1
SPENDING SUBJECT TO APPROPRIATION						
Spending on Physicians Comparability Allowance Under Current Law[a]						
Estimated Budget Authority	27	27	27	27	14	0
Estimated Outlays	27	27	27	27	14	1
Proposed Changes						
Estimated Authorization Level	0	7	9	9	5	0
Estimated Outlays	0	7	9	9	5	b
Spending on Physicians Comparability Allowance Under H.R. 1836						
Estimated Authorization Level	27	34	36	36	19	0
Estimated Outlays	27	34	36	36	19	1

a. Under current law, agencies can offer allowances to physicians through fiscal year 2000, with the contracts for such allowances extending through fiscal year 2002.
b. Less than $500,000.

BASIS OF ESTIMATE

By modifying the health coverage of FDIC and Federal Reserve retirees and active employees within five years of retirement, H.R. 1836 would affect both direct spending (for the FDIC and the FEHB program) and revenues (for the Federal Reserve). In addition,

increasing the pay of certain physicians employed by the government would affect discretionary spending.

Direct Spending and Revenues

Health Insurance Transfer for Certain Employees. H.R. 1836 would transfer the health insurance coverage of retirees and certain active employees of the FDIC and the Board of Governors of the Federal Reserve System to the FEHB program. Currently, those two agencies operate their own health insurance programs. The legislation would also require the two agencies to make a one-time payment to the Office of Personnel Management (OPM), which administers the FEHB program, to cover the long-term cost of the government's contribution toward the insurance premiums of the newly covered individuals.

The shifting of the FDIC employees and retirees to the FEHB program would reduce direct spending in each year because the FDIC pays more for health insurance than the FEHB program would. The current FDIC plan is more expensive that the typical FEHB plan because the insured employees are older and fewer in number, and it provides more generous coverage. Ongoing savings would grow from an estimated $7 million in fiscal year 1999 to $11 million in 2003. CBO assumes that the FDIC would make the required one-time payment to OPM in January 1999. We estimate that the one-time payment would be $170 million; but we also estimate that the FDIC would save $10 million in the same year from lower health insurance costs. The net cost to the FDIC in 1999, therefore, would be $160 million. Reflecting the transfer from the FDIC, the FEHB program would receive the payment of $170 million in that year but would incur additional costs of about $3 million to insure those employees and retirees, for net savings of $167 million to the FEHB program.

The transfers between the Federal Reserve and the FEHB program would have a similar effect, but significantly fewer employees would be affected at the Federal Reserve. We estimate that the Federal Reserve would make a one-time payment of $12 million to OPM in 1999, with associated savings of $1 million, for a net reduction in revenues of $11 million. The associated savings to the Federal Reserve and costs to the FEHB program beyond 1999 would both approximate $1 million per year, although FEHB costs may be slightly less and the Federal Reserve's savings slightly more. Also, the budgetary effects on the Federal Reserve are recorded on the revenue side of the budget. Thus, the resulting increases in federal revenues beyond 1999 would approximate the increases in FEHB costs for coverage of Federal Reserve personnel, and the net budgetary impact each year would be negligible.

Other Provisions. CBO estimates that the other provisions of H.R. 1836 would not significantly affect FEHB spending. The legislation would strengthen OPM's ability to bar

or sanction unethical health providers and expand a preemption of state and local authority to regulate health plans that provide coverage under FEHB. Enacting those provisions might reduce FEHB costs slightly.

H.R. 1836 also would require OPM to encourage carriers to seek assurances that health care providers who contract with third parties to provide discounted rates are made aware of the conditions for those discounts. That provision could discourage some FEHB plans from using certain discount vendors, potentially increasing costs. Based on a survey conducted by OPM, however, FEHB plans believe that their discount vendors disclose the conditions of the discounts to health care providers.

Finally, section 8 would allow plans to make direct payments to certain non-physician providers, even when such arrangements are not required by law. Because plans already have such authority, the enactment of that section would not affect FEHB spending.

Spending Subject to Appropriation

H.R. 1836 would increase the maximum annual allowance payable to eligible federal physicians to $30,000. Current law authorizes certain agencies to pay allowances of up to $20,000 a year to recruit and retain physicians for certain positions, such as those with long-term vacancies or high turnover rates. To receive the allowance, physicians must agree to work at least one year at the agency. CBO estimates that increasing the maximum annual allowance from $20,000 to $30,000 would increase salary costs by $30 million over the 1999-2003 period. This estimate is based on information provided by OPM, including data on the number of federal physicians receiving comparability allowances and the average annual premium that they receive under current service agreements. CBO estimates that the provision would increase the average allowance for 1,800 physicians by about $5,000 a year and that agencies would modify service agreements with physicians within the first few months of fiscal year 1999.

The authority for agencies to offer allowances to physicians was extended through fiscal year 2000 by the Treasury and General Government Appropriations Act for fiscal year 1998 (Public Law 105-61). Under that authority, agencies and physicians can enter into contracts that extend through the end of fiscal year 2002. Most service agreements are made for two years. CBO assumes that the number of outstanding contracts in fiscal year 2001 will approximate the number of contracts in 2000, and that the number of contracts in fiscal year 2002 will be about one-half of the number estimated for 2001. Thus, the increase in costs for fiscal year 2002 is lower than for previous years.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

The budget excludes from pay-as-you-go calculations expenses associated with maintaining the deposit insurance commitment. CBO assumes that the increase in costs to the FEHB program and the decrease to the FDIC from its employees joining the FEHB plan would be excluded from the pay-as-you-go calculations because they would be associated with maintaining the deposit insurance commitment. The budgetary effects on the Federal Reserve, and the corresponding effect on outlays of the FEHB program, would not be excluded.

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	0	-11	1	1	1	1	1	1	1	1	1
Changes in receipts	0	-11	1	1	1	1	1	1	1	1	1

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1836 would add language expanding the preemption of state and local authority to regulate health care plans that provide coverage under the FEHB program. Current law prohibits state and local governments from regulating the nature and extent of coverage and benefits for people covered by the FEHB program if the regulation or law is inconsistent with the contract provisions. The new language would preclude state and local governments from regulating the provision of coverage or benefits as well, and it removes the language dealing with inconsistencies, thereby giving the federal contract provisions clear authority. These changes would affect states that have requirements governing what types of organizations can provide health care when those requirements are different from those under federal contracts. This preemption would be considered a mandate under UMRA. However, because the only effect of the preemption would be to limit the application of state law in some circumstances, CBO estimates that any costs to state or local governments arising from this mandate would be minimal.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 1836 contains no private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On November 3, 1997, CBO prepared a cost estimate for H.R. 1836, as ordered reported by the House Committee on Government Reform and Oversight on October 31, 1997. For the House version of H.R. 1836, CBO did not estimate any effect on direct spending or governmental receipts. This estimate corrects that error.

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