CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 3, 1997

H.R. 1836
Federal Employees Health Care Protection Act of 1997

As ordered reported by the House Committee on Government Reform and Oversight on October 31, 1997

SUMMARY

H.R. 1836 would modify the administration of Federal Employees Health Benefits (FEHB) and raise the pay of certain physicians employed by the federal government. CBO estimates that enacting this bill would increase federal outlays by $2 million in 1998 and by between $30 million and $35 million over the 1998-2002 period, assuming appropriation of the authorized amounts. Because the bill would not affect direct spending or receipts, pay-as-you-go procedures would not apply.

Section 2 would strengthen the Office of Personnel Management's (OPM's) ability to bar or sanction unethical health providers. Section 3 makes technical changes regarding national plans, and it would expand a preemption of state and local authority to regulate health care plans that provide coverage under FEHB. This preemption would represent a mandate under the Unfunded Mandates Reform Act of 1995, but CBO estimates that any costs to state or local governments arising from this mandate would be minimal.

Section 4 would allow retired employees of the Federal Deposit Insurance Corporation and the Federal Reserve Board access to FEHB plans. Section 5 would require OPM to encourage carriers who contract with third parties to obtain discounted rates from health care providers to seek assurances that the conditions for those discounts have been fully disclosed to the health care providers.

Section 6 clarifies FEHB procedures for the closure and readmittance of plans. Section 8 states that plans are allowed to provide direct access and payments to licensed health care providers, even when such arrangements are not required by law.

Section 7 would permit agencies to increase the maximum annual allowance payable to certain federal physicians from $20,000 to $30,000. CBO estimates that federal salary costs would increase by between $30 million and $35 million over the fiscal year 1998-2002 period, subject to the availability of funds.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that enactment of H.R. 1836 would not affect federal outlays for FEHB, but would increase federal salary costs, subject to the availability of funds. For purposes of the estimate, CBO assumes that the bill will be enacted by the middle of fiscal year 1998 and that agencies would modify service agreements with physicians by year's end. The estimated costs of this legislation would affect several budget functions.

	By Fiscal Year, in Millions of Dollars				
	1998	1999	2000	2001	2002
SPENDING SUBJECT TO APPROPRIATION					
Spending on Physicians Comparability Allowance Under Current Law					
Budget Authority	27	27	27	27	14
Estimated Outlays	27	27	27	27	14
Proposed Changes					
Estimated Authorization Level	2	9	9	9	5
Estimated Outlays	2	9	9	9	5
Spending on Physicians Comparability Allowance Under H.R. 1836					
Estimated Authorization Level	29	36	36	36	19
Estimated Outlays	29	36	36	36	19

BASIS OF ESTIMATE

Spending for Federal Employees Health Benefits

CBO estimates that H.R. 1836 would not significantly affect FEHB spending. The debarment and sanction provisions in Section 2 and the clarification of federal preemption of state insurance laws in Section 3 could possibly reduce FEHB costs.

Section 5 could discourage some FEHB plans from using certain discount vendors, potentially increasing costs. Based on a survey conducted by the Office of Personnel Management, however, FEHB plans believe that their discount vendors provide disclosure of the conditions of the discounts to health providers.

Section 4 would allow OPM to determine payments from the Federal Deposit Insurance Corporation and the Federal Reserve Board to the FEHB fund such that giving enrollees in plans sponsored by those agencies access to FEHB plans would not affect federal spending.

Section 8 allows plans to make direct payments to certain non-physician providers. Because plans already have such authority, the enactment of that section would not change spending.

Physicians Comparability Allowance

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 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 between $30 million and $35 million over the 1998-2002 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.

The authority for agencies to offer allowances to physicians was recently extended through fiscal year 2000 by the Treasury and General Government appropriations bill for fiscal year 1998 (P.L. 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 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: None

INTERGOVERNMENTAL AND PRIVATE SECTOR MANDATES

H.R. 1836 would expand the preemption of state and local authority to regulate health care plans that provide coverage under FEHB. Current law prohibits state and local governments from regulating the nature and extent of coverage and benefits for people covered by FEHB 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 comparably

higher requirements for types of medical coverage offered by health plans. Although this preemption would be considered a mandate under UMRA, CBO estimates that any costs to state or local governments arising from this mandate would be minimal.

ESTIMATE PREPARED BY:

Federal Cost Estimate: Jeff Lemieux, FEHB
John R. Righter, federal pay
Impact on State, Local, and Tribal Governments: Leo Lex
Impact on Private Sector: Sandra Christensen

ESTIMATE APPROVED BY:

Paul N. Van de Water
Assistant Director for Budget Analysis