CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

Revised October 23, 2017

H.R. 3921
HEALTHY KIDS Act of 2017

As ordered reported by the House Committee on Energy and Commerce on October 4, 2017

SUMMARY

H.R. 3921 would extend federal funding for the Children's Health Insurance Program (CHIP) for five years, increase Medicaid funding for Puerto Rico and the Virgin Islands, and change policies that require other sources of health coverage to pay claims before Medicaid. The bill also would modify payments to hospitals that treat a disproportionate share of uninsured and Medicaid patients and require states to count lottery winnings as income for purposes of determining Medicaid eligibility. Finally, H.R. 3921 would make adjustments to Medicare premium subsidies for higher-income individuals.

On net, CBO estimates that implementing the legislation would reduce the deficit by $1.1 billion over the 2018-2027 period. Because enacting H.R. 3921 would affect direct spending and revenues, pay-as-you-go procedures apply.

CBO estimates that enacting H.R. 3921 would not increase net direct spending or on-budget deficits in one or more of the four consecutive 10-year periods beginning in 2028.

H.R. 3921 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. 3921 is shown in the following table. The costs of this legislation fall within budget function 550 (health).

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
	By Fiscal Year, in Millions of Dollars											
INCREASES OR DECREASES (-) IN DIRECT SPENDING												
Sec. 101-104 - CHIP												
Estimated Budget Authority	14,704	11,210	12,828	13,498	14,304	-5,859	-4,756	0	0	0	66,545	55,930
Estimated Outlays	1,438	4,489	3,601	1,615	1,740	1,372	632	4	2	0	12,883	14,893
Sec. 105 – Modifying Reduction in Medicaid DSH Allotments												
Estimated Budget Authority	1,356	0	0	0	0	0	0	0	-761	-788	1,356	-193
Estimated Outlays	1,356	0	0	0	0	0	0	0	-761	-788	1,356	-193
Sec. 106 – Puerto Rico and the Virgin Islands Medicaid Payments												
Estimated Budget Authority	1,032	8	0	0	0	0	0	0	0	0	1,040	1,040
Estimated Outlays	796	241	4	0	0	0	0	0	0	0	1,040	1,040
Sec. 201 – Medicaid Third Party Liability												
Estimated Budget Authority	70	110	-160	-330	-520	-535	-555	-580	-605	-635	-830	-3,740
Estimated Outlays	70	110	-160	-330	-520	-535	-555	-580	-605	-635	-830	-3,740
Sec. 202 Treatment of Lottery Winnings												
Estimated Budget Authority	-13	-27	-43	-61	-66	-70	-75	-80	-86	-91	-210	-612
Estimated Outlays	-13	-27	-43	-61	-66	-70	-75	-80	-86	-91	-210	-612
Sec. 203 – Medicare Premium Subsidies												
Estimated Budget Authority	-270	-380	-410	-470	-550	-600	-650	-740	-830	-880	-2,080	-5,780
Estimated Outlays	-270	-380	-410	-470	-550	-600	-650	-740	-830	-880	-2,080	-5,780
Total Changes												
Estimated Budget Authority [a]	16,879	10,921	12,215	12,637	13,168	-7,064	-6,036	-1,400	-2,282	-2,394	65,821	46,645
Estimated Outlays	3,377	4,432	2,992	754	604	167	-647	-1,396	-2,281	-2,394	12,159	5,608
INCREASES OR DECREASES (-) IN REVENUES												
Sec. 101 - CHIP												
Estimated Revenues	160	736	998	1,169	1,311	1,262	1,036	-1	0	0	4,374	6,671
On-Budget	105	486	660	772	866	836	687	-1	0	0	2,889	4,411
Off-Budget [b]	55	250	338	397	445	426	349	0	0	0	1,485	2,260
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM INCREASES OR DECREASES (-) IN DIRECT SPENDING AND REVENUES												
Impact on Deficit	3,217	3,696	1,994	-415	-707	-1,095	-1,683	-1,395	-2,281	-2,394	7,785	-1,063
On-Budget	3,272	3,946	2,332	-18	-262	-669	-1,334	-1,395	-2,281	-2,394	9,270	1,197
Off-Budget	-55	-250	-338	-397	-445	-426	-349	0	0	0	-1,485	-2,260

Notes: Components may not add to totals because of rounding; CHIP = Children's Health Insurance Program; DSH = payments to hospitals that treat a disproportionate share of uninsured and Medicaid patients.

a. CBO has updated the estimates of total budget authority that were incorrect in the October 19 estimate.

b. All off-budget effects would come from changes in Social Security revenues.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3921 will be enacted near the start of calendar year 2018.

Children's Health Insurance Program

H.R. 3921 would extend funding for CHIP through 2022, change the federal matching rate in 2020, and extend certain eligibility requirements. CBO and JCT estimate that enacting this legislation would increase federal spending by $14.9 billion and revenues by $6.7 billion, for a net cost of $8.2 billion over the 2018-2027 period, relative to CBO's baseline.

Extension of Funding. The bill would provide a total of $118.5 billion for CHIP allotments to states over five years. The net cost of the extension described above ($8.2 billion) is substantially less than the amount of funding provided for three reasons. First, pursuant to the rules that govern CBO's baseline, certain expiring programs, including CHIP, are assumed to continue in the baseline beyond their scheduled expiration dates. In accordance with those rules and the structure of CHIP financing in 2017, CBO assumes the continuation of $5.7 billion of CHIP funding in each year over the 2018–2027 period. CBO's estimate of CHIP spending under this bill is net of that spending already assumed in the baseline.

Second, the increase in spending for CHIP would be partially offset by reductions in the net costs of federal subsidies provided for other forms of health insurance, including Medicaid, insurance purchased through the health insurance marketplaces established under the ACA, and employment-based health insurance. Those reductions would occur because most of the people who would receive coverage through CHIP as a result of enacting H.R. 3921 would otherwise receive federally-subsidized coverage under current law. Specifically, CBO estimates that of the approximately six million children who would be covered by CHIP under H.R. 3921:

- About 40 percent would be covered by Medicaid under current law. Thus, enacting H.R. 3921 would reduce federal Medicaid spending by $15.1 billion during the 2018-2027 period relative to CBO's baseline.

- About 25 percent would receive subsidies for private health insurance purchased through the marketplaces under current law. Children in families with income between 138 percent and 400 percent of the poverty guidelines who are not eligible for Medicaid would generally qualify for subsidies to purchase health insurance through the marketplaces if they do not have access to employment-based coverage through a parent. If H.R. 3921 is enacted, CBO estimates those subsidies would be $20 billion lower over the 2018-2027 period because those children would enroll in

CHIP instead of purchasing coverage through the marketplaces. The estimated decrease in subsidies for coverage purchased through marketplaces comprises a \$19.2 billion reduction in outlays and a \$0.7 billion increase in revenues.

- About 25 percent would participate in employment-based health insurance under current law, because some parents with offers of family coverage through an employer will choose to enroll their children in such plans. Under H.R. 3921, CBO and JCT estimate that revenues would be \$3.8 billion higher over the 2018-2027 period because parents who would no longer enroll their children in health insurance through their employer would receive less of their income in nontaxable health benefits and more in taxable wages.

- Fewer than 10 percent would be uninsured under current law and some would be subject to the penalty associated with the individual mandate. Enacting H.R. 3921 would reduce federal revenues associated with collecting that penalty by less than \$50 million over the 2018-2027 period.

Finally, the net cost of the extension is less than the \$118.5 billion that would be provided by H.R. 3921 because CBO does not expect that all of the appropriated funds would be spent.

Enhanced Federal Matching Rate. Under current law, a 23 percentage point increase in the CHIP federal matching rate that went into effect in 2016 will expire after 2019. The average matching rate would return to historical levels of about 70 percent beginning in 2020. Under H.R. 3921, states would receive an 11.5 percentage point increase in the matching rate in 2020 and the matching rate would return to historical levels beginning in 2021. CBO estimates that approximately \$2 billion of the net cost of H.R. 3921 is due to this provision.

Maintenance of Eligibility Levels Requirement. Under current law, states are required to maintain CHIP eligibility levels, methodologies, and procedures as they were on March 23, 2010 through September 30, 2019. CBO expects that, under current law, some states would lower CHIP eligibility levels and/or impose more restrictive eligibility procedures (such as waiting periods) beginning in 2020, which would reduce the number of children eligible for CHIP.

H.R. 3921 would mostly extend this requirement through 2022. Instead of the requirement applying to all children, beginning in 2020 it would be limited to children in families with income below 300 percent of the poverty guidelines. It would also apply to children in families with income above 300 percent of the poverty guidelines who do not have access to an offer of employer-sponsored insurance through a family member. (Because the vast majority of children in CHIP are in families with incomes below 300 percent of the poverty guidelines, CBO estimates that continuing this requirement, as modified by H.R. 3921, would affect at least 98 percent of children who would be enrolled in CHIP if the current requirement were fully extended through 2022.)

CBO expects that more children would enroll in CHIP under H.R. 3921 because of the extension of the eligibility requirements that are scheduled to expire in 2019. Overall, the cost to the federal government of covering these children in CHIP would be less than the average cost of covering them in the marketplaces and employment-based insurance. As a result, CBO estimates that this provision would reduce the estimated net cost of extending CHIP funding through 2022 by about $700 million.

Demonstration Programs. The bill would provide $200 million of funding for the Childhood Obesity Demonstration Project, the Pediatric Quality Measures Program, and outreach activities to children that aim to increase enrollment in Medicaid and CHIP. Based on historical spending patterns for similar activities, CBO estimates that those provisions would increase outlays by approximately $200 million over the 2018-2027 period.

Modifying Reduction in Medicaid DSH Allotments

Under current law, allotments are made to states for payments to hospitals that treat a disproportionate share of uninsured and Medicaid patients (DSH allotments). In 2017 states received $12 billion in allotments. DSH allotments are increased each year by the percent change in the consumer price index and then will be adjusted by scheduled cuts between 2018 and 2025. Those cuts begin at $2 billion in 2018 and grow by $1 billion per year until they reach $8 billion in 2024 and 2025. H.R. 3921 would eliminate the $2 billion reduction for 2018 and add $8 billion in allotment cuts to 2026 and 2027. On net, CBO estimates that this provision would reduce direct spending by $193 million over the 2018-2027 period. The level of savings is smaller than the net change to the DSH allotments because some states do not spend all of their DSH allotments and because CBO expects that by 2026 states will have adjusted to the reduced DSH allotments of prior years and will not spend substantially more for DSH in 2026 and 2027 than what is projected to be spent in 2025. As a result, CBO estimates that the additional $8 billion in allotment cuts added to 2026 and 2027 would only lead to a modest reduction in DSH spending in those years.

Puerto Rico and the Virgin Islands Medicaid Payments

Over the 2018 and 2019 period, H.R. 3921 would increase the total amount of block grant funding available to Puerto Rico under the Medicaid program, by more than $1 billion, and increase the funds available to the U.S. Virgin Islands by approximately $30 million. In total, CBO estimates the provision would increase direct spending by $1,040 million over the 2018-2027 period relative to CBO's baseline.

Medicaid Third Party Liability

The bill would make several changes to policies in Medicaid that require other sources of health coverage, or third parties, to pay claims under their policies before Medicaid will pay for the care of an enrollee. On net, those changes are expected to reduce direct spending by $3.7 billion over the 2018-2027 period.

Under current law, if a state is aware that a Medicaid enrollee has potential third-party coverage, the state must reject a provider's claim until it has been submitted to the third party. If a state identifies a third party after a claim is paid, the state must seek reimbursement from the third party. For certain services, states are required to pay first or to pay Medicaid claims even if a third party is likely liable and then seek to recoup that payment from the third party. Currently, states must pay those claims within 30 days. However, beginning in 2018, states will have 90 days to make such payments. Any amounts recouped by the states from third parties must be shared with the federal government at the same rate as the federal government reimburses states for Medicaid services. Based on administrative data from the Department of Health and Human Services, CBO estimates that less than 10 percent of adults and children have other private or public sources of coverage. In fiscal year 2016, states collected and returned to the federal government over $870 million in reimbursements from third parties for such claims.

Two provisions of the bill would amend current standards for paying claims that fall under the exception to states paying first. Beginning in fiscal year 2018 the bill would delay, for two years, policies that allow states to wait up to 90 days before paying claims that fall under the exception. In fiscal year 2020 the bill also would eliminate the requirement for states to pay first for services for prenatal care, preventive pediatric, and for individuals on whose behalf child support enforcement is being carried out. On net, CBO expects that these provisions would increase the amount paid for services by third parties and reduce the amount paid by Medicaid. In total, CBO estimates these provisions would reduce direct spending by $6.6 billion over the 2018-2027 period.

H.R. 3921 also would amend the definition of other sources of health coverage to exclude worker's compensation and property and auto insurers. In fiscal year 2016, collections from these insurers accounted for approximately 30 percent of total reimbursements from third parties. CBO estimates that excluding these insurers from liability would increase direct spending by $2.8 billion over the 2018-2027 period.

Finally, the bill would allow states to keep a larger percentage of payments recouped from third parties who provide coverage to individuals who were made eligible for Medicaid under the Affordable Care Act (ACA). This provision would provide an incentive for states to increase their efforts to recoup payments. However, CBO expects that few individuals made eligible under the ACA have coverage from a liable third party and, as a result, recoveries would not increase recoveries enough to offset the cost of allowing states to keep a greater share of the recoveries. On net, CBO estimates that the provision would increase direct spending by $60 million over the 2018-2027 period.

Treatment of Lottery Winnings

Under current law, most non-disabled adults who apply for Medicaid and have substantial funds in a bank account could still qualify for Medicaid because the eligibility rules do not permit assets tests (an asset test counts the resources, such as savings accounts, that applicants may have available to them beyond their earnings and other income). Similarly, while most current enrollees who gain substantial lump sum income must report that income to their state Medicaid agencies, which would cause most to lose their coverage, those individuals could reapply again the next month once the lump sum income would be treated as an asset.

H.R. 3921 would require states to treat monetary winnings from lotteries and other lump sum forms of income such as from gambling, legal judgements, and inheritances as income for purposes of determining Medicaid eligibility. For amounts less than $80,000, these types of income would be countable as income for Medicaid eligibility purposes in the month received. For each $10,000 increment of income above $80,000, the amounts would be divided into equal monthly installments for up to 120 months ($90,000 in income would be divided over two months, $100,000 in income over three months, and so on). As a result, the bill would reduce Medicaid spending by preventing some individuals from receiving Medicaid benefits for the applicable period of time.

Based on lottery data from the state of Michigan, additional information collected from lottery industry groups, and the relatively low probability of low-income individuals receiving large sums from lotteries, gambling, legal judgements, and inheritances, CBO estimates that the number of people who would lose Medicaid because of H.R. 3921 would be modest, ranging from 16,000 to 18,000 in most years of the budget window. Assuming the typical per capita cost for Medicaid adults (which ranges from an estimated $4,600 in 2018 to $6,800 in 2027), CBO estimates that this provision would reduce direct spending by $612 million over the 2018-2027 period.

Medicare Premium Subsidies

Under current law, an income-related monthly adjustment amount (IRMAA) is applied to basic premiums for Medicare enrollees in parts B (which covers physicians' and other outpatient services) and D (which covers outpatient prescription drugs) with relatively high income. The income thresholds for the higher premiums are divided among four brackets, which are frozen through 2019. The lowest bracket is set at $85,000 for single beneficiaries or $170,000 for married couples filing joint tax returns. The thresholds will increase by about 2 percent in 2020 and will be indexed after that for general price inflation. H.R. 3921 would modify the income thresholds for the highest premium bracket (80 percent) and create an additional bracket (100 percent) beginning in calendar year 2018. The new bracket would be set at $500,000 for single beneficiaries and $875,000, or 1.75 times the single beneficiary's amount, for married couples filing jointly. Beneficiaries earning more than those amounts would be required to pay a combined basic premium and IRMAA that will cover 100 percent of the expected costs for an average enrollee. In addition, this section would also change the rate of increase by about 5 percent for the 100 percent premium bracket beginning in 2027. CBO estimates that this section would save $5.8 billion over the 2018-2027 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 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.

CBO Estimate of Pay-As-You-Go Effects for H.R. 3921, as ordered reported by the House Committee on Energy and Commerce on October 4, 2017

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT												
Statutory Pay-As-You-Go Impact	3,272	3,946	2,332	-18	-262	-669	-1,334	-1,395	-2,281	-2,394	9,270	1,197
Memorandum:												
Changes in Outlays	3,377	4,432	2,992	754	604	167	-647	-1,396	-2,281	-2,394	12,159	5,608
Changes in Revenues	105	486	660	772	866	836	687	-1	0	0	2,889	4,411

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 2028.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3921 contains no intergovernmental or private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

This revised cost estimate supersedes the cost estimate for H.R. 3921 that CBO transmitted on October 19, 2017, for the bill as ordered reported by the House Committee on Energy and Commerce on October 4, 2017. CBO has updated the estimates of total budget authority that were incorrect in the October 19 estimate. The estimated costs of implementing the bill remain unchanged.

ESTIMATE PREPARED BY:

Federal Costs: Kate Fritzsche, Emily King, Jamease Kowalczyk, Lisa Ramirez-Branum, Robert Stewart, Rebecca Yip, and the staff of the Joint Committee on Taxation

Intergovernmental and Private-Sector Impact: Amy Petz

ESTIMATE APPROVED BY:

Holly Harvey
Deputy Assistant Director for Budget Analysis