CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 20, 2017

S. 1827
Keep Kids' Insurance Dependable and Secure Act of 2017

As ordered reported by the Senate Committee on Finance on October 4, 2017

SUMMARY

S. 1827 would extend federal funding for the Children's Health Insurance Program (CHIP) for five years, through fiscal year 2022. The bill also would make several other changes to CHIP, including a change in the federal matching rate for the program and an extension of the requirement that states maintain eligibility levels as they were in 2010.

CBO and JCT estimate that, on net, enacting this legislation would increase the deficit by $8.2 billion over the 2018-2027 period. That amount includes a spending increase of $14.9 billion and an increase in revenues of $6.7 billion. About $2 billion of the estimated revenue increase would be off-budget.

Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and 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 2028.

S. 1827 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 S. 1827 is shown in the following table. The costs of this legislation fall within budget function 550 (health).

	By Fiscal Year, in Billions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN DIRECT SPENDING												
CHIP												
Estimated Budget Authority	15.8	16.9	18.0	19.1	20.2	0	0	0	0	0	90.0	90.0
Estimated Outlays	2.7	10.1	8.7	7.2	7.6	7.2	5.4	0	0	0	36.4	49.0
Medicaid												
Estimated Budget Authority	-0.9	-3.6	-2.3	-2.2	-2.1	-2.3	-1.8	0	0	0	-11.0	-15.1
Estimated Outlays	-0.9	-3.6	-2.3	-2.2	-2.1	-2.3	-1.8	0	0	0	-11.0	-15.1
Marketplaces												
Estimated Budget Authority	-0.4	-2.1	-2.9	-3.4	-3.8	-3.6	-2.9	0	0	0	-12.6	-19.2
Estimated Outlays	-0.4	-2.1	-2.9	-3.4	-3.8	-3.6	-2.9	0	0	0	-12.6	-19.2
Other												
Estimated Budget Authority	0.2	0	0	0	0	0	0	0	0	0	0.2	0.2
Estimated Outlays	*	*	*	*	*	*	*	*	*	0	*	0.2
Total Changes												
Estimated Budget Authority	14.7	11.2	12.8	13.5	14.3	-5.9	-4.8	0	0	0	66.5	55.9
Estimated Outlays	1.4	4.5	3.6	1.6	1.7	1.4	0.6	*	*	0	12.7	14.9
INCREASES IN REVENUES												
Marketplaces	*	0.1	0.1	0.1	0.1	0.1	0.1	0	0	0	0.4	0.7
Employer-Sponsored Insurance	0.1	0.7	0.9	1.1	1.2	1.1	0.9	0	0	0	3.9	6.0
Mandate Penalties	0	*	*	*	*	*	*	*	0	0	*	*
Total Changes	0.2	0.7	1.0	1.2	1.3	1.3	1.0	*	0	0	4.4	6.7
On-Budget	*0.1*	*0.5*	*0.7*	*0.8*	*0.9*	*0.8*	*0.7*	*	*0*	*0*	*2.9*	*4.4*
Off-Budget	*0.1*	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*	*0.3*	*0*	*0*	*0*	*1.5*	*2.3*
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Net Change in the Deficit	**1.3**	**3.8**	**2.6**	**0.4**	**0.4**	**0.1**	**-0.4**	*****	*****	**0**	**8.5**	**8.2**
On-Budget	*1.3*	*4.0*	*2.9*	*0.8*	*0.9*	*0.5*	*-0.1*	*0*	*0*	*0*	*10.0*	*10.5*
Off-Budget	*-0.1*	*-0.3*	*-0.3*	*-0.4*	*-0.4*	*-0.4*	*-0.3*	*0*	*0*	*0*	*-1.5*	*-2.3*

Notes: CHIP = Children's Health Insurance Program; "Other" includes outreach and enrollment grants, the child obesity demonstration project, and the pediatric quality measures program; * = between - $50 million and + $50 million; components may not add to totals because of rounding.

BASIS OF ESTIMATE

S. 1827 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 S. 1827 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 S. 1827:

- About 40 percent would be covered by Medicaid under current law. Thus, enacting S. 1827 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 S. 1827 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 S. 1827, 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 S. 1827 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 S. 1827 because CBO does not expect that all of the appropriated funds would be spent.

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 S. 1827, 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 S. 1827 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.

S. 1827 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 S. 1827, 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 S. 1827 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.

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 S. 1827, as ordered reported by the Senate Committee on Finance on October 4, 2017

	By Fiscal Year, in Billions 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	1.3	4.0	2.9	0.8	0.9	0.5	-0.1	0	0	0	10.0	10.5
Memorandum:												
Changes in Outlays	1.4	4.5	3.6	1.6	1.7	1.4	0.6	0	0	0	12.7	14.9
Changes in Revenues	0.1	0.5	0.7	0.8	0.9	0.8	0.7	0	0	0	2.9	4.4

Note: components may not add to totals because of rounding.

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

S. 1827 contains no intergovernmental or private-sector mandates as defined in UMRA.

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