MEMORANDUM

TO: Congressional Health Staff

FROM: Robin Rudowitz

DATE: May 5, 1997

SUBJECT: Updated Estimate of the President's Medicaid/Children's Health Policies

In response to numerous Congressional requests, CBO has updated its estimates of the costs of the Medicaid and children's health initiatives in the President's fiscal year 1998 budget to reflect the legislative language that was transmitted to the Congress. This memorandum describes the assumptions underlying the estimated costs or savings of these provisions and the estimated changes in health coverage associated with them.

On balance, CBO estimates that the President's proposal would generate $10.0 billion in net Medicaid savings (see Table 1). This is the sum of savings from the per capita cap, lower payments for disproportionate share (DSH) hospitals, and higher costs from changes related to welfare reform and other proposals. The table shows the estimated costs or savings from each provision relative to current law, including any interactions with other provisions. (For example, the interaction of the welfare provisions and the per capita cap reduces total savings, but the interaction of the DSH policy and the per capita cap increases net Medicaid savings.) The estimate also incorporates interactions with Medicare, the new grant program for children's health coverage, and other programs.

CBO estimates that by 2001, the President's proposal would newly extend health coverage (through Medicaid or other programs) to about 830,000 children who would have otherwise been uninsured (see Table 2). Another 490,000 children who would otherwise have been covered by private insurance would also be covered under these public programs. New coverage of children would fall to 710,000 in 2002 with the expiration of a grant program for temporarily unemployed workers.

CBO has increased its estimate of net savings from $7.5 billion to $10.0 billion relative to the estimate released in March. The updated estimate differs from the original for two of the provisions. First, the estimated savings from the per capita cap are lower, because the legislative language specifies different adjustment factors than CBO had earlier assumed. The Administration also added an adjustment to the caps for states with section 1115 waivers. Second, the estimated cost of the 12-month continuous eligibility is lower,

because CBO is now assuming that fewer states would elect to use this option.

PER CAPITA CAP

The President's budget package would cap the rate of growth in federal spending per Medicaid beneficiary at the growth in gross domestic product per capita plus an adjustment factor. Each year, a state's Medicaid limit would be the sum of the products of the state's base year per capita amount for each eligibility group (aged, disabled, children, and adults), the inflation index for that year and the number of beneficiaries in that group. The cap would exclude payments for DSH hospitals, Medicare premiums and cost sharing, the Vaccines for Children program, the Indian Health Service, and some administrative activities.

Over the 1998-2002 period, the per capita cap policy would reduce spending by $7.1 billion. The potential savings have been reduced by 30 percent to reflect the difficulties inherent in implementing the new system and the incentives states would have to enroll beneficiaries with below-average cost for their eligibility group or to reclassify beneficiaries. In particular, states would try to enroll more children whose costs were lower than the average cost for children as a result of these incentives. On a full-year equivalent (FYE) basis, an additional 130,000 children would be enrolled in the Medicaid program by 2002 as a result.

DISPROPORTIONATE SHARE PAYMENTS

The President's policy would reduce and retarget DSH payments. Under the plan, a state's DSH amount would be limited to its 1995 DSH spending minus a percentage of the lesser of that amount or 12 percent of the total amount of expenditures made under the state plan for medical assistance in 1995. CBO estimates that this provision would generate $16.5 billion in savings from 1998 to 2002 in conjunction with the per capita cap. (Relative to current law, estimated savings would be 25 percent lower because CBO assumes that states will establish another method to direct increased payments to DSH providers in response to the DSH limits. In the presence of the per capita cap, however, this leakage would not occur.)

The provisions related to DSH would not affect health coverage among children.

WELFARE REFORM CHANGES

The President's budget would restore Medicaid coverage for some legal immigrants and certain disabled children who lost their eligibility as a result of welfare reforms enacted in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

Immigrant Policies. The President's proposal would restore eligibility for the Supplemental Security Income (SSI) program to immigrants who become disabled after entering the country. Restoring SSI coverage for these individuals would also restore Medicaid eligibility for those who would have lost it as a result of losing SSI benefits. The President's proposal would also restore Medicaid eligibility to immigrants who become disabled after entering the country and immigrant children who enter the United States after August, 1996, and who are currently banned from receiving benefits for their first five years in the United States. CBO estimates that the provisions which apply to disabled immigrants would also apply to approximately two-thirds of the legal immigrants over 65 who otherwise would have lost Medicaid coverage under welfare reform. Finally, the President's proposal would extend the current exemption from Medicaid bans for refugees and asylees from five to seven years.

In conjunction with the per capita cap, these provisions would increase spending by $5.9 billion over the 1998-2002 period. Of this amount, restoring Medicaid coverage for disabled immigrants would cost $5.5 billion; exempting immigrant children from the five-year ban would cost $0.4 billion. These provisions cost $3.1 billion more under a per capita cap than they would relative to current law because the average cost of Medicaid benefits for people whose eligibility would be restored is less than the cap for that group. States could use this differential to help make up for lower federal reimbursement for other groups.[1]

On an FYE basis, Medicaid coverage for about 270,000 immigrants would be restored in 2002. Of them, about 130,000 would be children, with the remainder being disabled adults.

Retain Medicaid for Certain Disabled Children. The enactment of welfare reform changed the definition of disability, making certain children ineligible for SSI benefits. Although many of these children would have continued to qualify for Medicaid on the basis of their families' incomes, some would lose benefits. The President's budget proposes to restore

1. For example, CBO estimates that the cost of restoring Medicaid benefits to some disabled children is much less than the cost for an average disabled person. Because these children would qualify for Medicaid on the basis of their disability, the state would be able to attribute the full disabled per capita amount to each child when determining the state's aggregate spending limit. Accounting for the average cost of the group regardless of the true cost of the person coming back on the rolls increases the state limit relative to the per capita cap savings.

eligibility for those children who were receiving Medicaid at the time of enactment of welfare reform. That proposal would cost $0.8 billion over the 1998-2002 period under the per capita cap. Again, these provisions cost $0.7 billion more under a per capita cap than they would relative to current law because the average cost of Medicaid benefits for people whose eligibility would be restored is less than the cap for that group.

CBO estimates that Medicaid coverage would be restored for about 20,000 children in 2002. This figure is slightly different from CBO's earlier estimate of this provision, which assumed that this policy covered a class of children who would have otherwise been eligible for SSI rather than the specific individuals who were receiving benefits.

INTERACTIONS WITH MEDICARE

CBO's estimate of changes in Medicaid spending also accounts for interactions with the President's proposal for Medicare. This interaction would increase federal Medicaid costs by about $0.9 billion over the 1998-2002 period. The estimated interaction is based on CBO's March estimate of the President's Medicare proposal.

CHILDREN'S HEALTH INITIATIVES

The President's budget proposal would allow states to provide children with continuous Medicaid coverage for 12 months after eligibility was determined and would provide $750 million annually to states for new health programs covering children who were not eligible for Medicaid.

12-Month Continuous Coverage. On average, CBO estimates that children stay enrolled in the Medicaid program for about 9 months in any year. This proposal would allow states to cover children for the entire year without regard to changes in the incomes of their families. If all states opted to extend coverage for an entire year, Medicaid costs would increase by almost $14 billion. However, because this option is so costly—and because few states take advantage of the option to provide 6-month continuous coverage under Section 1115 or Section 1915(b) waivers—CBO estimates that states accounting for only 5 percent of those total costs would choose the option. Thus, this provision would cost $0.7 billion over the 1998-2002 period.

This provision would increase the average number of children enrolled on the Medicaid program in any month by 130,000. Because some of these children would otherwise have been insured, this policy would reduce the number of uninsured children by

about 80,000.

State Partnership Grants. CBO estimates that all of the available federal grant monies would be claimed, so that spending would increase by $3.75 billion over the 1998-2002 period. The grant amount would be allocated to states on the basis of the number of uninsured children in the state. To access the funds, the states would need to put up state, local, or private funds at their current federal matching percentage for the Medicaid program.

In addition, CBO estimates that in the process of enrolling children in their new programs, states would discover some children who were eligible for Medicaid and would enroll them in that program, increasing federal Medicaid costs by $0.7 billion. Total federal spending would thus increase by $4.5 billion over the 1998-2002 period.

CBO estimates that in 2002, the grant program would extend health coverage to about 540,000 children through state programs and an additional 140,000 through Medicaid. Not all of these children would otherwise have been uninsured, however, so that the net effect of this provision would be to reduce the number of uninsured children by about 400,000. For the purposes of estimating coverage, CBO assumes that the Secretary would allow states to use the funds only for programs that offered comprehensive benefits. Moreover, CBO assumes that not all of the federal and state funding would expand health coverage. First, some of the new federal funds would substitute for current state spending. Second, some of the funds would cover administrative costs. Finally, states would be able to generate federal matching funds without increasing their own spending for health coverage.

HEALTH INSURANCE FOR FAMILIES OF UNEMPLOYED WORKERS

The Administration's proposal includes $9.8 billion in grants for states to subsidize health insurance for unemployed workers. CBO estimates that by 2001, the final year of the program, this proposal would reduce the average number of uninsured people by about 900,000, including 300,000 children. (The total number of people affected by the program during the course of a year would be much larger.) Because some of these people would otherwise have been insured in the absence of the new program, the proposal would reduce the number of uninsured people by about 500,000, including 200,000 children.

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Table 1. Change in Direct Spending Medicaid and Health Initiatives, President's 1998 Budget Estimate Based on Legislative Language

(by fiscal year, in billions of dollars)	1998	1999	2000	2001	2002	Total 1998-2002
			MEDICAID			
January 1997 Baseline	105.3	113.6	122.9	132.8	143.8	618.4
Proposed Changes:						
Savings Provisions						
Per Capita Cap	0.0	-0.2	-1.2	-2.2	-3.6	-7.1
Disproportionate Share Hospital Payments	-0.3	-2.2	-3.8	-4.6	-5.6	-16.5
Supplemental Payment Amounts						
Federally Qualified Health Centers	0.0	0.5	0.4	0.3	0.2	1.4
Transition Pool	0.0	0.4	0.3	0.2	0.1	1.0
Welfare Reform Restorations						
Restore Medicaid Benefits to Certain Disabled Immigrants	0.9	0.9	1.0	1.2	1.5	5.5
Restore Medicaid Benefits to Immigrant Children	0.0	0.0	0.1	0.1	0.1	0.4
Retain Medicaid for Certain Disabled Children	0.1	0.2	0.2	0.2	0.2	0.8
Children's Health Initiatives						
12-Month Continuous Medicaid Eligibility	0.1	0.1	0.1	0.1	0.2	0.7
Medicaid Impact of Children's Health Insurance Grant Program	0.1	0.1	0.1	0.1	0.2	0.7
Other Provisions						
Grants to Puerto Rico	0.0	0.0	0.1	0.1	0.1	0.3
Extension of VA Sunset	0.0	0.3	0.3	0.3	0.3	1.1
Working Disabled*	0.0	0.0	0.0	0.0	0.0	0.0
Raise DC FMAP to 70%	0.1	0.2	0.2	0.2	0.2	0.9
Eliminate Vaccine Excise Tax	-0.1	0.0	0.0	0.0	0.0	-0.1
Interactions						
Medicare	0.0	0.1	0.2	0.2	0.4	0.9
Total Changes	1.1	0.4	-2.1	-3.8	-6.7	-10.0
Medicaid Outlays Under Proposal	106.4	114.1	120.8	129.0	138.1	608.3
			HEALTH INITIATIVES			
State Partnership Grants	0.8	0.8	0.8	0.8	0.8	3.8
Program for Workers Between Jobs	1.7	2.6	2.7	2.9	0.0	9.8

*Less than $50 million

Totals may not add due to rounding

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Table 2. Change in Health Coverage (Average Monthly Counts) Medicaid and Health Initiatives, President's 1998 Budget Estimate Based on Legislative Language

(by fiscal year, thousands of people)	1998	1999	2000	2001	2002
Medicaid Full-Year Equivalents Under January 1997 Baseline					
Aged	3,920	3,990	4,060	4,130	4,200
Disabled	6,350	6,620	6,730	6,950	7,160
Children	17,330	17,610	17,840	18,040	18,240
Adults	7,140	7,170	7,200	7,240	7,270
Total	34,740	35,300	35,830	36,350	36,870
Per Capita Cap					
Children	0	0	50	90	130
Welfare Provisions					
Restore Medicaid Benefits to Certain Disabled Immigrants (Aged)	50	50	60	60	70
Restore Medicaid Benefits to Certain Disabled Immigrants (Disabled)	50	50	60	60	70
Restore Medicaid Benefits to Immigrant Children	20	50	70	100	130
Retain Medicaid for Certain Disabled Children 1\	20	20	20	20	20
Children's Initiatives					
12-Month Continuous Medicaid Eligibility	130	130	130	130	130
Medicaid Impact of Children's Health Insurance Grant Program	140	140	140	140	140
Other					
Working Disabled 2\	0	0	0	0	0
Medicaid Full-Year Equivalents Under Policy					
Aged	3,970	4,040	4,110	4,190	4,270
Disabled	6,400	6,670	6,780	7,000	7,230
Children	17,630	17,950	18,240	18,520	18,800
Adults	7,140	7,170	7,200	7,240	7,270
Total	35,150	35,730	36,350	36,950	37,560
Changes in Medicaid Full-Year Equivalents (Policy minus Baseline)					
Aged	50	50	50	60	70
Disabled	50	50	50	60	70
Children	300	340	410	480	560
Adults	0	0	0	0	0
Total	410	440	510	590	700
Grants for Other Health Insurance Initiatives					
Children's Health	540	540	540	540	540
Temporarily Unemployed Workers					
Adults	500	600	600	600	0
Children	200	300	300	300	0
Total	700	900	900	900	0
Changes in Public Insurance Coverage for Children					
Previously Insured	410	450	470	490	390
Previously Uninsured	640	730	780	830	710
Total	1,050	1,180	1,250	1,320	1,100

1\ Included in the totals for children not disabled
2\ Less than 10,000 people

Totals may not add due to rounding

MEMORANDUM

May 9, 1997

TO: John Hilley, Gene Sperling, Jack Lew, Nancy-Ann Min

FR: Chris Jennings

RE: Rep. Thomas Releases CBO Kid's Estimates

This afternoon Representative Thomas did a press conference releasing CBO estimates of the number of uninsured kids that would be covered under the President's Budget. Thomas released these numbers in an effort to validate his position that alterative proposals coming out of his committee should be considered in addition to our current proposals. It is a jurisdictional grab that is potentially problematic for our politics on the Hill, although none of his proposals have seemed to get significant coverage so far.

Attached is a quick response to the CBO release. In addition, one point we may want to emphasize is that we believe CBO had to rush an estimate and, in so doing, had to err on the conservative side on the number of children covered. Moreover, it is important to note that our current budget agreement provides the opportunity to target the dollars in a different manner than CBO has estimated. (For example, we have dropped our workers-in-between jobs program and instead focused exclusively on providing more coverage for uninsured children).

Response to Reported CBO Coverage Estimates of the President's Children Health Initiative

- **Up to 5 million children covered is a solid number.** According to the Department of Health and Human Services, the President's Children's Health Initiative, in partnership with States, communities and providers, will extend coverage to up to 5 million uninsured children. These estimates were derived by a non-partisan, career actuary and analysts using sound and defensible methods.

- **We believe States are interested in expanding coverage.** The primary reason why CBO's number of children covered by the options is low is because they assume that States will first use the money to offset existing spending -- not to expand coverage. They also assume that very few States will take the 12-month continuous eligibility option.

- **States have proven that they share the President's genuine interest in expanding coverage to children**. Over 30 States have put up their own money — with no Federal support — to begin to address this serious problem. Additionally, many have forged partnerships with businesses and foundations as a means of leveraging money. To assume that States will completely replace existing funding with the new funding explicitly suggests that States are not interested in expanding coverage to children. There is simply no evidence to suggest that this is the case.

- **The Budget Agreement targets health expansions to cover more kids.** The budget agreement, which includes $16 billion for children's health coverage, provides the opportunity to target the dollars in a different manner than CBO estimated. For example, we have dropped our workers-in-between jobs program and instead are focusing on providing more coverage for uninsured children.

- **Does not even include the 2 million children that the President assumes in the projected 5 million children covered under his proposal.** CBO estimates the "public" component of the public-private partnership, not the full plan.

  The President's Initiative includes about 1.2 million covered through community and private sector efforts. The President plans to work with Governors, providers, businesses and communities to increase participation in programs already available to uninsured children.

  It also includes the 1 million children being phased into Medicaid -- who would have lost coverage under the vetoed 1995 budget.

Thus, the number of children increased by the legislative proposals is only part of the target of the President's efforts.