CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 25, 2005

H.R. 3971

QI, TMA, and Abstinence Programs Extension and Hurricane Katrina Unemployment Relief Act of 2005

As cleared by the Congress on October 19, 2005, and signed by the President on October 20, 2005

SUMMARY

H.R. 3971, enacted as Public Law 109-91, extends the authority for Medicaid to pay Medicare Part B premiums for certain qualifying individuals through September 2007 and extends abstinence education programs and eligibility for transitional medical assistance (TMA) under Medicaid through December 31, 2005. The act also eliminates Medicare and Medicaid coverage of prescription drugs used to treat erectile dysfunction and provides unemployment assistance to three states affected by Hurricane Katrina—Alabama, Louisiana, and Mississippi—by transferring $500 million from the federal unemployment accounts to the state accounts in the unemployment trust fund.

CBO estimates that H.R. 3971 will increase direct spending by $341 million in 2006, mostly for payments of Medicare Part B premiums and transitional medical assistance. However, the act will reduce direct spending by $1.5 billion over the 2006-2015 period, largely from the elimination of coverage for erectile dysfunction drugs. CBO estimates that the act will also reduce revenues by $394 million over the same period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3971 is shown in the following table. The changes in direct spending fall within budget functions 550 (health), 570 (Medicare), and 600 (income security).

ESTIMATED EFFECTS OF H.R. 3971 ON DIRECT SPENDING AND REVENUES (By fiscal year, in millions of dollars)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Qualifying Individual Program												
Medicare Benefits												
Estimated Budget Authority	182	233	39	0	0	0	0	0	0	0	454	454
Estimated Outlays	182	233	39	0	0	0	0	0	0	0	454	454
Medicare Premiums												
Estimated Budget Authority	0	-59	-45	-9	0	0	0	0	0	0	-114	-114
Estimated Outlays	0	-59	-45	-9	0	0	0	0	0	0	-114	-114
Medicaid												
Estimated Budget Authority	36	3	-39	0	0	0	0	0	0	0	0	0
Estimated Outlays	36	3	-39	0	0	0	0	0	0	0	0	0
Transitional Medical Assistance												
Medicaid												
Estimated Budget Authority	138	31	*	*	*	*	*	*	*	*	169	169
Estimated Outlays	138	31	*	*	*	*	*	*	*	*	169	169
SCHIP												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-3	*	1	1	1	*	*	*	1	*	*	1
Abstinence Education												
Estimated Budget Authority	13	0	0	0	0	0	0	0	0	0	13	13
Estimated Outlays	4	4	1	1	1	0	0	0	0	0	11	11
Erectile Dysfunction Drugs												
Medicare Part D Benefits												
Estimated Budget Authority	0	-110	-150	-170	-180	-200	-220	-240	-260	-280	-610	-1,810
Estimated Outlays	0	-110	-150	-170	-180	-200	-220	-240	-260	-280	-610	-1,810
Medicaid												
Estimated Budget Authority	-15	-20	-25	-25	-30	-30	-35	-35	-40	-45	-115	-300
Estimated Outlays	-15	-20	-25	-25	-30	-30	-35	-35	-40	-45	-115	-300
Medicare Clawback Receipts												
Estimated Budget Authority	0	5	10	10	10	15	15	15	15	20	35	115
Estimated Outlays	0	5	10	10	10	15	15	15	15	20	35	115
Total Changes in Direct Spending												
Estimated Budget Authority	354	83	-210	-194	-200	-215	-240	-260	-285	-305	-167	-1,472
Estimated Outlays	341	87	-208	-193	-199	-215	-240	-260	-285	-305	-172	-1,477

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	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN REVENUES												
Unemployment Assistance	0	0	-49	-60	-58	-54	-49	-45	-41	-38	-167	-394
NET EFFECT ON THE DEFICIT												
Net Effect of All Provisions	341	87	-159	-133	-141	-161	-191	-215	-244	-267	-5	-1,083

NOTES: Components may not sum to totals because of rounding.

SCHIP = State Children's Health Insurance Program.

* = between -$500,000 and $500,000.

BASIS OF ESTIMATE

Direct Spending

Qualifying Individual Program. The Medicaid program pays the Medicare Part B premium for Medicare beneficiaries who have incomes between 120 percent and 135 percent of the federal poverty level and limited assets. (These beneficiaries are commonly known as "qualifying individuals.") Medicaid had been authorized to pay those premiums through September 2005; H.R. 3971 extends that authority through September 2007.

Using Medicaid administrative data, the Part B premiums for calendar years 2005 and 2006, and projected premiums for calendar year 2007, CBO estimates that spending on premiums for qualifying individuals during the two-year period covered by the act will total $454 million.

Medicaid will pay for the premiums (with the federal government paying the entire cost instead of the usual federal-state split) and then be reimbursed by Medicare. According to the Centers for Medicare and Medicaid Services, there is a lag of about two months in those Medicare reimbursements. As a result, some of the Medicare reimbursements will not occur until 2008.

The additional Medicare payments for QI benefits under the act will be partly offset through higher premiums paid by all Medicare Part B beneficiaries. CBO estimates that the higher premiums will total $114 million (or 25 percent of the additional Medicare payments) and will be collected over the 2007-2009 period.

Transitional Medical Assistance. The act also extends through December 31, 2005, the requirement that state Medicaid programs provide transitional medical assistance to certain beneficiaries—usually former TANF recipients—who would otherwise lose eligibility because of increased earnings. This requirement had expired on September 30, 2005.

CBO estimates that the extension of TMA will increase federal Medicaid spending by $138 million in 2006 and by $169 million over the 2006-2015 period. The budgetary effects of the provision will continue beyond December 31, 2005, because qualifying families will be entitled to up to 12 months of additional eligibility, even if their eligibility runs beyond that date.

The extension also will affect spending in the State Children's Health Insurance Program (SCHIP), lowering outlays in 2006 and increasing them in subsequent years. Without TMA, CBO anticipates that some families leaving welfare between September 30, 2005, and December 31, 2005, would have had incomes high enough to make their children ineligible for Medicaid, and that some of the children in those families would have enrolled in SCHIP instead. The extension of TMA will make those children eligible for Medicaid and (because children who are eligible for Medicaid cannot enroll in SCHIP) reduce SCHIP spending by $3 million in 2006. Because states generally have three years to spend their SCHIP allotments, those initial savings will free up funds that can be spent on benefits in later years.

Abstinence Education. H.R. 3971 appropriates an estimated $12.5 million for the abstinence education program for the first quarter of fiscal year 2006. Based on the program's past spending pattern, CBO estimates that this provision will increase outlays by $4 million in 2006 and by $11 million over the 2006-2010 period.

Erectile Dysfunction Drugs. The act prohibits Medicare and Medicaid from covering prescription drugs used to treat erectile dysfunction. These prohibitions will take effect on January 1, 2006, for Medicaid and on January 1, 2007, for Medicare. Using data from the Centers for Medicare and Medicaid Services on prescription drug spending by Medicaid and other sales data for erectile dysfunction drugs, CBO estimates that this provision would reduce federal outlays by $1.8 billion in Medicare and $300 million in Medicaid over the 2006-2015 period. The savings for Medicare are net of premiums that would have been paid by beneficiaries.

States are required to make payments to the federal government (commonly known as "clawback" payments) based on the number of individuals who would have received prescription drug coverage through Medicaid in the absence of Medicare's drug benefit. The payment for each individual is determined by a formula based on per capita Medicaid spending in calendar year 2003 for drugs that are now covered under Medicare. CBO estimates that the elimination of Medicare coverage for erectile dysfunction drugs will reduce clawback payments by the states by $115 million over the 2006-2015 period.

Revenues

Title II of the act directs the Secretary of the Treasury, within 10 days of enactment, to transfer $500 million from the federal unemployment accounts to the state accounts in the unemployment trust fund for three states affected by Hurricane Katrina. The Secretary will transfer $15 million to Alabama, $400 million to Louisiana, and $85 million to Mississippi.

CBO estimates that the transfer will allow those states either to reduce unemployment insurance tax rates or, more likely, to postpone increases in those tax rates. Because those changes are recorded as revenues in the federal budget, such actions reduce federal revenues. We estimate that, on balance, the transfers will reduce federal revenues by $394 million over the 2006-2015 period.

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