

CBO TESTIMONY

Statement of
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before the
Subcommittee on Health and the Environment
Committee on Energy and Commerce
U.S. House of Representatives

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NOTICE

This statement is not available for public release until it is delivered at 10:30 a.m. (EDT), Monday, September 16, 1991.



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Mr. **Chairman**, I appreciate the opportunity to appear before this Subcommittee to discuss the federal budget estimate of the Oregon Medicaid Demonstration Project provided by the Oregon Department of Human Resources.

In 1990, the Oregon legislature passed Oregon Senate Bill 27, a demonstration project designed to extend basic health care benefits to all state residents in poverty, including those who have historically been excluded from the Medicaid program. State officials have estimated that the demonstration will result in a rise in enrollees of 36.4 percent, or 90,400 more people than are currently receiving Medicaid in Oregon. To control the costs of the new benefits, a commission of health care specialists was formed to establish priorities for health care treatments. The commission estimated the cost of providing each treatment, and the legislature decided how many of the treatments the state could afford to provide. Private contractors were engaged to estimate the cost of providing the services on the list, the per capita cost of each participating individual, and the net additional cost to the federal government of waiving the current Medicaid program and adopting **SB 27**.

The Office of Medical Assistance Programs (OMAP), within the Oregon Department of Human Resources, has estimated that the Oregon demonstration would increase federal costs, excluding any research costs, by

\$14.8 million in the first year (assumed to be fiscal year 1993) and by \$109.6 million over five years.

The Congressional Budget Office (CBO) has been asked to assess these estimates. Our review of the assumptions underlying these estimates has led us to conclude that costs may have been underestimated. This conclusion is based on several assumptions that the estimators have made. More specifically, we are concerned about:

- o the assumed savings from managed care,
- o the phase-in rates estimated for the new program,
- o the failure to assume a negative revenue effect from mandating that employers provide health insurance, and
- o the Medicare savings estimated from mandating employment-based health insurance.

In each of these areas, our estimates of similar health reforms at the national level have shown smaller savings or higher costs.

MANAGED CARE

The Oregon estimate has assumed that costs would be reduced from current levels because most of the beneficiaries will be enrolled in capitated and case-managed programs. The estimate also assumes that the increased use of managed care under the demonstration would save 2 percent to 5 percent of the cost of treating the eligible population.

Because relatively little evidence is available on the extent to which managed care reduces use of services and costs, CBO believes that the savings attributed to managed care are highly uncertain. The evidence on managed care is mixed and leaves questions unanswered about whether use of services is shifted from one care setting to another, whether any savings are one-time reductions, or whether savings are achieved only with certain types of patients. Evidence of savings from managed care arrangements is clear only for staff and group-model health maintenance organizations (HMOs), in which doctors have no **fee-for-service** practice.

Savings from managed care are also assumed in the development of the per capita payments. The Oregon per capita payments reflect a 25 percent savings factor for the portion of beneficiaries expected to be treated in HMOs, 13 percent for those in physician care organizations, and up to

9 percent for those enrolled in primary care case-manager settings. Again, these savings are larger than CBO would expect based on national experience.

PHASE-IN RATES

The Oregon estimate assumes that participation in the program will be phased in over several years. It also assumes that 40 percent of those people ultimately expected to participate would be in the program in year one, 70 percent in year two, 90 percent in year three, and 100 percent in year four. In most CBO Medicaid estimates, the participation phase-in percentages are higher in year one and reach 100 percent by year three. The CBO assumptions would be close to the "upper bound" estimates for the phase-in rates provided by Oregon. Under these alternative phase-in assumptions, federal costs would increase by \$20 million over the five-year period above the Oregon estimate.

REVENUE EFFECT

In year four of the demonstration, another bill, Oregon Senate Bill 935, would require employers to provide health care coverage for their employees. The

Oregon estimate overlooks the potential revenue effect of an employer-mandated health insurance policy. To the extent that employers would have to pay for new policies, their profits would be reduced, resulting in lower corporate tax payments to the federal government. Alternatively, if the costs of the insurance policies were passed **back** to the employees in the form of lower (or more slowly increasing) monetary wages, personal income tax and payroll tax revenues would be lower than they otherwise would be. In either case, federal tax revenues would decline by about one-fourth of the increase in health premiums. No such revenue loss has been included in the **OMAP** estimate of federal costs, even though it includes a reduction in Medicare and Medicaid expenditures that would result from an expansion in employment-based insurance.

MEDICARE SAVINGS

The Oregon estimate assumes Medicare savings in years four and five as a result of SB 935. The savings are assumed to accrue as a result of roughly 20,000 Medicare beneficiaries' receiving the new employer-mandated benefits in their workplace. CBO agrees that some offsetting savings are likely, although we disagree with Oregon's assumption that all eligible employees will accept employer-based coverage offered under the mandate. Based on

Current Population Survey (CPS) data, approximately 20 percent of Medicare recipients over the age of 65 who work apparently turn down the option of employer-based health insurance.

UNCERTAINTY OF THE ESTIMATES

We would also like to highlight **the** uncertainty of these estimates. CBO usually provides budget estimates primarily on a national basis. We generally do not provide state estimates for several reasons. The data used as the basis for cost projections are generally from national data bases and national economic indicators. They reflect the **middle** ground of all of the states' economies and populations. The use of national data bases to estimate the costs in a single state significantly increases the uncertainty of the estimate. The problem is serious in this case because it requires estimating the number of Oregon residents with incomes below the poverty level.

The CPS data have been used to generate the Oregon estimate. Unfortunately, the survey is not large enough to provide reliable estimates for individual states such as Oregon. To overcome this problem, the Oregon estimate projects the eligible population by pooling several years of Oregon's sample in the CPS. Although pooling several years of data can make the

estimate somewhat more reliable, it cannot overcome the basic sample frame of the CPS that was designed to provide national estimates. Because the CPS was not designed to provide estimates for individual states, the Oregon estimates are subject to more uncertainty than is often the case.

If, as we suspect, the estimates are lower than actual program experience, however, the demonstration has an adjustment mechanism to reduce costs. The Oregon legislature could remove services with a lower priority from the benefit package to limit costs. If such services were removed, the demonstration could be forced to achieve the costs included in the estimate, although the benefits provided would have to be reduced.

CONCLUSION

The Oregon estimate assumes that enrollment in the first year of the demonstration will rise by 23 percent but that spending will rise by only 3 percent. We are concerned that the cost estimate provided may understate the actual costs for the reasons stated above.