

## MEMORANDUM

TO: DAVID NEXON, STAFF OF SENATOR KENNEDY

FR: BOBBY ROZEN, MAJORITY LEADER STAFF

RE: MEMO REGARDING RNC HEALTH CARE STRATEGY ON CAFETERIA PLANS

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When you asked me for information about the proposal to limit cafeteria plans, I mentioned to you that someone from the Administration had given me a memo regarding this issue. I understand you also have a copy of the memo.

I am quite confident that the memo is a fabrication prepared by a lobbyist for an insurance company that provides cafeteria plan benefits. First, cafeteria plans are not nearly so widely available as the memo claims. According to the Bureau of Labor Statistics cafeteria plans are available to about 37% of full-time employees of large (more than 100 employees) corporations and to about 14% of smaller employers. Such plans are available to about half of all full time state and local government workers.

Second, contrary to the claim in the memo, employees will not lose any of the listed benefits including:

1. Payroll deductions for medical, dental, group term life, and group disability insurance.
2. Out of pocket costs on medical, dental, prescription, eye care, health care.
3. Child care and care of a dependent.

Under the Mitchell bill, the only benefits that will no longer be available in a cafeteria plan are health care benefits (medical). All the other benefits listed above will continue. And, it is important to note, that employer provided health care benefits will continue to be fully excluded from income thus retaining the "exemption from federal income tax, FICA, and state income tax" the memo claims the Mitchell bill is taking away.

I don't know whether the RNC is investing a "small fortune" to contact employees who now have cafeteria plans, but I doubt it. However, I can assure you without any doubt that the RNC does not have the personalized information claimed about "how much would be taken out of their weekly paycheck, the number of their company's payroll person...". That is private information which would be illegal for the RNC to obtain.

In short, the memo is a clever ploy by someone in the insurance industry to exaggerate what the Mitchell bill does and to scare Senators Feinstein, Kohl and Kennedy among others.

## **CAFETERIA PLANS**

After health care reform, there will be no adequate public policy justification for a federal tax subsidy for health benefits offered through a cafeteria plan.

### **What does the Mitchell Bill Do?**

The bill would no longer permit health benefits to be offered as an option in a cafeteria plan effective January 1, 1997. The full range of other benefits, including dependent care, disability, group life insurance, and vacation pay could continue to be offered in a cafeteria plan. The Clinton plan and the bill approved by the Ways and Means Committee include the same provision.

### **What are cafeteria plans?**

Cafeteria plans are employee benefit programs that permit employees to select among a number of nontaxable benefits such as health care coverage and dependent care assistance, as well as cash or other taxable benefits. Two common types of cafeteria plans are: "flexible spending" arrangements and "premium conversion" plans. Under a flexible spending arrangement employees can set aside a portion of their salary on a tax-favored basis to reimburse specified health care expenses not covered under the employer's plan, for such things as supplemental benefits or cost sharing amounts for deductibles and copayments. Under a premium conversion plan, the employee's share of the health care premium can be paid out of a reduction in taxable salary rather than out of after tax earnings.

These options permit expenses, which are normally covered from income earned after paying taxes, to be covered from income earned before paying taxes. This saves the employee the taxes that would otherwise have been owed on that income, including federal and state income, as well as payroll taxes.

## **Why does tax-favored treatment for cafeteria plans no longer make sense after health reform?**

Cafeteria plans undercut cost containment efforts. Some health policy experts believe permitting employees to purchase health care and pay premiums on a before tax basis artificially lowers the price of health coverage and undermines the cost-containing effects of copayments and deductibles by making consumers less price conscious. While the general exclusion for health care benefits does that as well, cafeteria plans permit even greater utilization of this subsidy through the tax system.

Prohibiting cafeteria plans eliminates significant inequities. The generous benefits of a cafeteria plan which enable some individuals to get tax subsidies for the consumption of health care are available to only a small minority of workers and to no nonworkers.

Cafeteria plans would make it easier for employers and employees to take advantage of government subsidies provided to lower income households. Under health reform, lower income populations will be given subsidies to assist with the purchase of health care. Cafeteria plans will make it easier for employees to decline employer sponsored health insurance coverage and choose other employer provided benefits while claiming government subsidies. This will increase the cost of subsidies, and provide assistance to individuals who would otherwise have coverage through their employer.

Cafeteria plans encourage cost shifting in the health care system. Cafeteria plans make it easier for younger employees to forgo health insurance coverage or to purchase catastrophic health insurance coverage, leading many individuals to be inadequately insured which shifts costs off on to the insured population. Cafeteria plans also make it easier for some employers to shift costs on to other employers. Currently, many employers use cafeteria plans where the second spouse is employed, encouraging the spouse to forgo costly family insurance coverage in favor of receiving a lesser amount of cash from the employer. The primary employer then picks up the entire cost of covering the family.

**Cafeteria plans won't be needed  
after health care reform  
because choice will be built  
into the system**

The meaningful choices -- among types of coverage, health plans, and providers -- which cafeteria plans now bring to many employees will no longer be needed after health care reform because all employees will have that choice under health care reform. Today, more and more employees have only one choice of health plan. Cafeteria plan arrangements often give employees a greater range of choices. But in the Mitchell bill, all employees will have a range of health plans, delivery systems, and providers from which to choose.

**Cafeteria plans will still be  
available after health care reform  
with a wide range of benefit options**

The Mitchell bill would continue to permit employers to offer a full range of nontaxable benefits through a cafeteria plan other than health care coverage. Furthermore, to the extent that cafeteria plans are provided to employees to give them greater health benefit options, employers can continue to provide such full options. The exclusion from income for employer provided health care benefits will continue to remain in the law.



CONGRESSIONAL BUDGET OFFICE  
U.S. Congress  
Washington, DC 20515

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Robert D. Reischauer  
*Director*

August 9, 1994

Honorable George Mitchell  
Majority Leader  
United States Senate  
Washington, D.C.

Dear Mr. Leader:

Enclosed are estimates of the budgetary and other effects of your health reform proposal. They were prepared by the Congressional Budget Office and the Joint Committee on Taxation based on the text of S. 2357 as printed on August 3, 1994, and on subsequent revisions specified by your staff. Because we have not reviewed all of the final legislative language of the bill you have introduced today, these estimates must be regarded as preliminary.

Tables 1 and 2 of the attachment provide the federal budgetary effects of your proposal without the employer and individual mandates in effect and with the mandates in effect. Tables 3 and 4 contain estimates of the effect of your proposal on state and local budgets. Table 5 provides estimates of the change in health insurance coverage that would occur under your proposal; Table 6 shows its impact on national health expenditures.

The Congressional Budget Office is completing an analysis that briefly describes your proposal and discusses certain aspects of it. We plan to have that report available later in the day.

Sincerely,

Robert D. Reischauer

Enclosures

cc: Honorable Robert Dole, Republican Leader

**TABLE 1. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>MANDATORY OUTLAYS</b>										
<u>Medicaid</u>										
1 Discontinued Coverage of Acute Care	0	0	-23.8	-35.6	-39.7	-44.4	-49.6	-55.2	-61.2	-67.6
2 State Maintenance-of-Effort Payments	0	0	-18.5	-26.5	-28.7	-31.1	-33.6	-36.3	-39.3	-42.4
3 Disproportionate Share Hospital Payments	0	0	-8.8	-13.4	-14.8	-15.6	-18.8	-20.7	-22.9	-25.2
4 Increase Asset Disregard to \$4000 for Home and Community Based Services	a	a	a	a	a	a	a	0.1	0.1	0.1
5 Offset to Medicare Prescription Drug Program	0	0	0	0	-0.7	-1.5	-1.6	-1.9	-2.1	-2.3
6 Administrative Savings	0	0	-0.3	-0.5	-0.5	-0.6	-0.7	-0.8	-0.8	-0.9
<b>Total - Medicaid</b>	<b>a</b>	<b>a</b>	<b>-51.4</b>	<b>-76.0</b>	<b>-84.4</b>	<b>-93.2</b>	<b>-104.3</b>	<b>-114.8</b>	<b>-126.2</b>	<b>-138.3</b>
<u>Medicare</u>										
7 Part A Reductions										
Inpatient PPS Updates	0	0	-0.3	-1.6	-3.4	-5.6	-8.0	-10.7	-13.8	-17.4
Capital Reductions	0	-0.8	-1.0	-1.2	-1.6	-2.1	-2.2	-2.4	-2.7	-2.9
Disproportionate Share Hospital Reductions	0	0	-1.7	-2.1	-2.3	-2.5	-2.8	-3.1	-3.4	-3.7
Skilled Nursing Facility Limits	0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3
Long Term Care Hospitals	a	a	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4
Medicare Dependent Hospitals	a	0.1	0.1	0.1	a	a	0	0	0	0
Sole Community Hospitals	a	a	a	a	a	a	a	a	a	a
Part A Interactions	0	0	0.1	0.2	0.4	0.6	0.7	0.9	1.1	1.3
8 Essential Access Community Hospitals										
Medical Assistance Facility Payments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Rural Primary Care Hospitals (RPCH) Pmts	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
9 Part B Reductions										
Updates for Physician Services	-0.4	-0.6	-0.6	-0.7	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1
Real GDP for Volume and Intensity	0	0	-0.3	-0.8	-1.6	-2.5	-3.3	-4.2	-5.3	-6.6
Eliminate Formula Driven Overpayments	-0.8	-1.0	-1.3	-1.8	-2.3	-3.2	-4.2	-5.5	-7.1	-9.1
Competitive Bid for Part B	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Competitive Bid for Clinical Lab Services	a	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-0.6
Elimination of Balance Billing	0	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Laboratory Coinsurance	-0.7	-1.1	-1.3	-1.4	-1.6	-1.8	-2.0	-2.3	-2.6	-2.9
Correct MVPS Upward Bias	0	0	0	0	-0.2	-0.6	-1.4	-2.6	-3.9	-5.5
Eye & Eye/Ear Specialty Hospitals	a	a	a	0	0	0	0	0	0	0
Nurse Pract/Phys Asst Direct Payment	0	0	0.1	0.2	0.3	0.3	0.4	0.5	0.6	0.7
High Cost Hospitals	0	0	0	-0.5	-0.8	-0.8	-0.8	-0.9	-1.0	-1.0
Durable Medical Equipment Price Reduction	a	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
Permanent Extension of 25% Part B Premium	0	0.6	0.9	1.4	0.6	-1.0	-2.8	-5.0	-7.7	-9.8

Continued

**TABLE 1. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>10 Parts A and B Reductions</b>										
Home Health Copayments (20%)	-0.7	-3.4	-4.2	-4.6	-5.0	-5.5	-5.9	-6.4	-7.0	-7.6
Medicare Secondary Payer	0	0	0	0	-1.2	-1.8	-1.9	-2.0	-2.2	-2.3
Home Health Limits	0	0	-0.3	-0.6	-0.7	-0.7	-0.8	-0.9	-1.0	-1.0
Expand Centers of Excellence	0	-0.1	-0.1	-0.1	-0.1	-0.1	a	a	0	0
Extend ESRD Secondary Payer to 24 Months	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
<b>11 Medicare Outpatient Prescription Drug Benefit</b>	0	0	0	0	6.2	14.4	15.7	17.5	19.7	21.5
<b>Total - Medicare</b>	<b>-2.4</b>	<b>-6.6</b>	<b>-10.2</b>	<b>-14.1</b>	<b>-14.7</b>	<b>-14.3</b>	<b>-21.1</b>	<b>-28.9</b>	<b>-38.1</b>	<b>-48.4</b>
<b>Subsidies</b>										
<b>12 Persons between 0-200% of Poverty</b>	0	0	66.7	95.4	105.3	116.8	129.3	142.7	157.3	172.3
<b>13 Pregnant Women and Kids 0-300% of Poverty</b>					----- Included in Line 12 -----					
<b>14 Temporarily Unemployed</b>	0	0	0.0	5.0	7.1	7.7	8.3	9.0	9.8	10.6
<b>15 Enrollment Outreach</b>	0	0	1.3	3.3	5.2	6.9	8.4	9.9	10.8	11.3
<b>Total - Subsidies</b>	<b>0</b>	<b>0</b>	<b>68.0</b>	<b>103.7</b>	<b>117.6</b>	<b>131.3</b>	<b>146.1</b>	<b>161.6</b>	<b>177.9</b>	<b>194.3</b>
<b>Other Health Programs</b>										
<b>16 Vulnerable Hospital Payments</b>	0	0	0	2.5	2.5	2.5	2.5	2.5	2.5	2.5
<b>17 Veterans' Programs</b>	0	0	-1.4	-1.4	-1.7	-1.8	-1.9	-2.0	-2.0	-2.1
<b>18 Home and Community Based Care (\$48 bil. cap)</b>	0	0	0	1.8	2.9	3.6	5.0	7.9	11.4	15.4
<b>19 Life Care</b>	0	0	-0.6	-1.1	-1.1	-0.3	-0.3	-0.3	-0.3	-0.3
<b>20 Academic Health Centers</b>	0	0	4.7	7.0	8.0	9.1	10.3	11.0	11.5	12.1
<b>21 Graduate Medical and Nursing Education</b>	0	0	2.6	3.9	5.8	6.4	6.6	6.8	7.2	7.5
<b>22 Medicare Transfer - Direct Medical Education</b>	0	0	-1.6	-2.4	-2.5	-2.6	-2.8	-2.9	-3.1	-3.3
<b>23 Medicare Transfer - Indirect Medical Education</b>	0	0	-3.4	-4.9	-5.4	-5.9	-6.5	-7.2	-7.9	-8.7
<b>24 Public Health Schools; Dental Schools</b>	0	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>25 Women, Infants and Children</b>	0	0.3	0.5	0.5	0.5	0.5	a	0	0	0
<b>26 Administration of Enrollment Outreach</b>	0	0	0.4	0.7	0.9	1.0	1.1	1.3	1.4	1.4
<b>Total - Other Health Programs</b>	<b>0</b>	<b>0.3</b>	<b>1.3</b>	<b>6.7</b>	<b>10.0</b>	<b>12.6</b>	<b>14.1</b>	<b>17.2</b>	<b>20.8</b>	<b>24.6</b>
<b>Public Health Initiative</b>										
<b>27 Biomedical and Behavioral Research Trust Fund</b>	0	0	0.9	1.4	1.5	1.6	1.7	1.9	2.1	2.2
<b>28 Health Professions</b>	0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
<b>29 Core Public Health</b>	0	0.1	0.3	0.3	0.4	0.4	0.3	0.2	0.1	0.1
<b>30 Prevention</b>	0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
<b>31 Capacity Building and Capital</b>	0	0.3	0.5	0.5	0.4	0.2	0.1	0.1	0.0	0.0

Continued

**TABLE 1. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
32 OSHA and Workforce	0	0.3	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1
33 Supplemental Services	0	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0
34 Enabling Services	0	0.1	0.2	0.3	0.3	0.3	0.2	0.2	0.1	0.1
35 National Health Service Corps (NHSC)	0	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.0
36 Mental Health & Substance Abuse (CMMH&SA)	0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
37 School Clinics	0	0.1	0.2	0.3	0.4	0.4	0.3	0.2	0.1	0.1
38 Indian Health Service	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total - Public Health Initiatives	0	1.4	3.2	3.9	4.0	3.9	3.5	3.0	2.8	2.9
39 Social Security Benefits	0	0	0.2	0.5	0.9	0.9	0.9	0.9	0.8	0.8
<b>MANDATORY OUTLAY CHANGES</b>	<b>-2.4</b>	<b>-4.9</b>	<b>11.1</b>	<b>24.7</b>	<b>33.4</b>	<b>41.3</b>	<b>39.2</b>	<b>39.0</b>	<b>37.9</b>	<b>35.9</b>
<b>DISCRETIONARY OUTLAYS</b>										
<u>Health Programs</u>										
40 Veterans' Programs	1.2	0.6	-2.9	-4.8	-4.9	-5.1	-5.2	-5.4	-5.6	-5.8
41 Indian Health Supplementary Services	0.7	1.2	1.5	1.6	1.6	1.6	1.6	1.6	1.7	1.7
42 Misc. Public Health Service Grants	a	a	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Health Programs	1.9	1.8	-1.4	-3.1	-3.3	-3.4	-3.6	-3.7	-3.9	-4.1
<u>Administrative Expenses</u>										
43 Administrative Costs	0.5	0.9	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.2
44 Costs to Administer the Mandate	0	0	0	0	0	2.0	2.0	0	0	0
45 Planning and Start-Up Grants	0.1	0.4	0.6	0.3	0	0	0	0	0	0
Total Studies, Administrative Expenses	0.6	1.3	1.6	1.3	1.0	3.0	3.1	1.1	1.1	1.2
<u>Studies, Research, &amp; Demonstrations</u>										
46 EACH/MAF/Rural Transition Demonstrations	a	0.1	0.1	0.1	a	a	a	a	a	a
Total Studies, Research, & Demonstrations	a	0.1	0.1	0.1	a	a	a	a	a	a
<b>DISCRETIONARY OUTLAY CHANGES</b>	<b>2.5</b>	<b>3.2</b>	<b>0.3</b>	<b>-1.7</b>	<b>-2.3</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-2.8</b>	<b>-2.8</b>	<b>-2.9</b>
<b>TOTAL OUTLAY CHANGES</b>	<b>0.1</b>	<b>-1.6</b>	<b>11.4</b>	<b>22.9</b>	<b>31.1</b>	<b>40.9</b>	<b>38.7</b>	<b>36.3</b>	<b>35.1</b>	<b>33.0</b>

Continued



**TABLE 1. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>RECEIPTS</b>										
47 Increase in Tobacco Tax	0.7	2.7	4.5	6.1	7.6	7.4	7.1	6.9	6.8	6.7
48 1.75% Excise Tax on Private Health Ins Premiums	0	3.5	6.1	7.1	7.7	8.4	9.1	9.9	10.8	11.7
49 Addl Medicare Part B Premiums for High-Income Individuals (\$80,000/\$100,000)	0	0	2.0	2.0	2.8	3.5	4.4	5.5	6.9	8.7
50 Increase Excise Tax on Hollow-Point Bullets										
51 Include Certain Service-Related Income in SECA/ Excl Certain Inven-Related Income from SECA										
a) General Fund Effect	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
b) OASDI Effect	0	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
52 Extend Medicare Coverage & HI Tax to All State and Local Government Employees	0	1.6	1.6	1.5	1.5	1.4	1.4	1.3	1.2	1.2
53 Impose Excise Tax with Respect to Plans Failing to Satisfy Voluntary Contribution Rules	0	a	a	a	a	a	a	a	a	a
54 Provide that Health Benefits Cannot be Provided thru a Cafeteria Plan/Flex Spend Arrangements	0	0.5	2.5	3.9	4.8	5.6	6.3	7.0	7.7	8.5
55 Extend/Increase 25% Deduction for Health Insurance Costs of Self-Employed Individuals	-0.5	-0.6	-1.2	-1.3	-1.4	-1.5	-1.6	-1.8	-2.0	-2.1
56 Limit on Prepayment of Medical Premiums										
57 Non-Profit Health Care Orgns/Taxable Orgns Providing Health Ins & Prepd Health Care Svcs										
58 Trmt of Certain Ins Companies Under Sect 833	0	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
59 Grant Tax Exempt Status to State Ins Risk Pools	a	a	0	0	0	0	0	0	0	0
60 Remove \$150 Million Bond Cap on Non-Hospital 501(c)(3) Bonds	a	a	a	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
61 Qualified Long-Term Care Benefits Treated as Medical Care; Clarify Tax Treatment of Long-Term Care Insurance and Services	0	a	-0.2	-0.3	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4
62 Tax Treatment of Accelerated Death Benefits Under Life Insurance Contracts	a	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
63 Increase in Reporting Penalties for Nonemployees	0	a	a	a	a	a	a	a	a	a

Continued

**TABLE 1. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
64 Post-Retirement Medical/Life Insurance Reserves										
65 Tax Credit for Practitioners in Underserved Areas	a	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	a	a	a
66 Increase Expensing Limit for Certain Med Equip	a	a	a	a	a	a	a	a	a	a
67 Tax Credit for Cost of Personal Assistance Svcs Required by Employed Individuals	0	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
68 Disclosure of Return Information to State Agencies										
69 Impose Premium Tax with Respect to Certain High Cost Plans	0	a	0.9	2.2	3.3	6.1	9.5	12.5	16.0	19.9
70 Limit Exclusion for Employer-Paid Health Benefits	0	0	0	0	0	0	0	0	0	0.9
71 Indirect Tax Effects of Changes in Tax Treatment of Employer & Household Health Ins Spending	0	-0.5	-0.3	-0.7	-1.3	-2.0	-2.4	-3.0	-3.3	-3.7
<b>TOTAL RECEIPT CHANGES</b>	<b>0.1</b>	<b>7.1</b>	<b>15.7</b>	<b>20.2</b>	<b>24.5</b>	<b>28.3</b>	<b>33.4</b>	<b>37.8</b>	<b>43.5</b>	<b>51.2</b>
<b>DEFICIT</b>										
<b>MANDATORY CHANGES</b>	<b>-2.5</b>	<b>-12.0</b>	<b>-4.6</b>	<b>4.5</b>	<b>8.9</b>	<b>13.0</b>	<b>5.8</b>	<b>1.2</b>	<b>-5.6</b>	<b>-15.3</b>
<b>CUMULATIVE MANDATORY TOTAL</b>	<b>-2.5</b>	<b>-14.5</b>	<b>-19.2</b>	<b>-14.7</b>	<b>-5.8</b>	<b>7.2</b>	<b>13.0</b>	<b>14.1</b>	<b>8.6</b>	<b>-6.7</b>
<b>TOTAL CHANGES</b>	<b>-0</b>	<b>-8.7</b>	<b>-4.3</b>	<b>2.7</b>	<b>6.6</b>	<b>12.6</b>	<b>5.3</b>	<b>-1.5</b>	<b>-8.4</b>	<b>-18.2</b>
<b>CUMULATIVE DEFICIT EFFECT</b>	<b>-0</b>	<b>-8.8</b>	<b>-13.1</b>	<b>-10.3</b>	<b>-3.7</b>	<b>8.9</b>	<b>14.2</b>	<b>12.7</b>	<b>4.4</b>	<b>-13.8</b>

SOURCES: Congressional Budget Office; Joint Committee on Taxation

NOTES:

The figures in this table include changes in authorizations of appropriations and in Social Security that would not be counted for pay-as-you-go scoring under the Budget Enforcement Act of 1990.

Provisions with no cost have been excluded from this table.

a. Less than \$50 million.

**TABLE 2. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>MANDATORY OUTLAYS</b>										
<u>Medicaid</u>										
1 Discontinued Coverage of Acute Care	0	0	-23.8	-35.6	-39.7	-44.4	-49.6	-55.2	-61.2	-67.6
2 State Maintenance-of-Effort Payments	0	0	-18.5	-26.5	-28.7	-31.1	-33.6	-36.3	-39.3	-42.4
3 Disproportionate Share Hospital Payments	0	0	-8.8	-13.4	-14.8	-15.6	-18.8	-20.7	-22.9	-25.2
4 Increase Asset Disregard to \$4000 for Home and Community Based Services	a	a	a	a	a	a	a	0.1	0.1	0.1
5 Offset to Medicare Prescription Drug Program	0	0	0.0	0.0	-0.7	-1.5	-1.6	-1.9	-2.1	-2.3
6 Administrative Savings	0	0	-0.3	-0.5	-0.5	-0.6	-0.7	-0.8	-0.8	-0.9
Total - Medicaid	a	a	-51.4	-76.0	-84.4	-93.2	-104.3	-114.8	-126.2	-138.3
<u>Medicare</u>										
7 Part A Reductions										
Inpatient PPS Updates	0	0	-0.3	-1.6	-3.4	-5.6	-8.0	-10.7	-13.8	-17.4
Capital Reductions	0	-0.8	-1.0	-1.2	-1.6	-2.1	-2.2	-2.4	-2.7	-2.9
Disproportionate Share Hospital Reductions	0	0	-1.7	-2.1	-2.3	-2.5	-2.8	-3.1	-3.4	-3.7
Skilled Nursing Facility Limits	0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3
Long Term Care Hospitals	a	a	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4
Medicare Dependent Hospitals	a	0.1	0.1	0.1	a	a	0	0	0	0
Sole Community Hospitals	a	a	a	a	a	a	a	a	a	a
Part A Interactions	a	a	0.1	0.2	0.4	0.6	0.7	0.9	1.1	1.3
8 Essential Access Community Hospitals										
Medical Assistance Facility Payments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Rural Primary Care Hospitals (RPCH) Pmts	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
9 Part B Reductions										
Updates for Physician Services	-0.4	-0.6	-0.6	-0.7	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1
Real GDP for Volume and Intensity	0	0.0	-0.3	-0.8	-1.6	-2.5	-3.3	-4.2	-5.3	-6.6
Eliminate Formula Driven Overpayments	-0.8	-1.0	-1.3	-1.8	-2.3	-3.2	-4.2	-5.5	-7.1	-9.1
Competitive Bid for Part B	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Competitive Bid for Clinical Lab Services	a	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-0.6
Elimination of Balance Billing	0	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Laboratory Coinsurance	-0.7	-1.1	-1.3	-1.4	-1.6	-1.8	-2.0	-2.3	-2.6	-2.9
Correct MVPS Upward Bias	0	0	0	0	-0.2	-0.6	-1.4	-2.6	-3.9	-5.5
Eye & Eye/Ear Specialty Hospitals	a	a	a	0	0	0	0	0	0	0
Nurse Pract/Phys Asst Direct Payment	0	0	0.1	0.2	0.3	0.3	0.4	0.5	0.6	0.7
High Cost Hospitals	0	0	0	-0.5	-0.8	-0.8	-0.8	-0.9	-1.0	-1.0
Durable Medical Equipment Price Reduction	a	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
Permanent Extension of 25% Part B Premium	0	0.6	0.9	1.4	0.6	-1.0	-2.8	-5.0	-7.7	-9.8

Continued

**TABLE 2. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL  
WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>10 Parts A and B Reductions</b>										
Home Health Copayments (20%)	-0.7	-3.4	-4.2	-4.6	-5.0	-5.5	-5.9	-6.4	-7.0	-7.6
Medicare Secondary Payer	0	0	0	0	-1.2	-1.8	-1.9	-2.0	-2.2	-2.3
Home Health Limits	0	0	-0.3	-0.6	-0.7	-0.7	-0.8	-0.9	-1.0	-1.0
Expand Centers of Excellence	0	-0.1	-0.1	-0.1	-0.1	-0.1	a	a	0	0
Extend ESRD Secondary Payer to 24 Months	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
<b>11 Medicare Outpatient Prescription Drug Benefit</b>	0	0	0	0	6.2	14.4	15.7	17.5	19.7	21.5
Total - Medicare	-2.4	-6.6	-10.2	-14.1	-14.7	-14.3	-21.1	-28.9	-38.1	-48.4
<b>Subsidies</b>										
12 Persons between 0-200% of Poverty before Mandate	0	0	66.7	95.4	105.3	116.8	129.3	33.1	0	0
13 Persons between 0-200% of Poverty after Mandate	0	0	0	0	0	0	0	96.1	137.2	149.6
14 Pregnant Women and Kids 0-300% of Poverty				----- Included in Line 12 -----						
15 Temporarily Unemployed	0	0	0.0	5.0	7.1	7.7	8.3	12.5	14.7	15.9
16 Enrollment Outreach	0	0	1.3	3.3	5.2	6.9	8.4	2.5	0	0
Total - Subsidies	0	0	68.0	103.7	117.6	131.3	146.1	144.2	151.9	165.5
<b>Other Health Programs</b>										
17 Vulnerable Hospital Payments	0	0	0	2.5	2.5	2.5	2.5	2.5	2.5	2.5
18 Veterans' Programs	0	0	-1.4	-1.4	-1.7	-1.8	-1.9	-2.0	-2.0	-2.1
19 Home and Community Based Care	0	0	0	1.8	2.9	3.6	5.0	7.9	11.4	15.4
20 Life Care	0	0	-0.6	-1.1	-1.1	-0.3	-0.3	-0.3	-0.3	-0.3
21 Academic Health Centers	0	0	4.7	7.0	8.0	9.1	10.3	11.0	11.5	12.1
22 Graduate Medical and Nursing Education	0	0	2.6	3.9	5.8	6.4	6.6	6.8	7.2	7.5
23 Medicare Transfer - Direct Medical Education	0	0	-1.6	-2.4	-2.5	-2.6	-2.8	-2.9	-3.1	-3.3
24 Medicare Transfer - Indirect Medical Education	0	0	-3.4	-4.9	-5.4	-5.9	-6.5	-7.2	-7.9	-8.7
25 Public Health Schools; Dental Schools	0	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
26 Women, Infants and Children	0	0.3	0.5	0.5	0.5	0.5	a	0	0	0
27 Administration of Enrollment Outreach	0	0	0.4	0.7	0.9	1.0	1.1	1.3	1.4	1.4
Total - Other Health Programs	0	0.3	1.3	6.7	10.0	12.6	14.1	17.2	20.8	24.6
<b>Public Health Initiative</b>										
28 Biomedical and Behavioral Research Trust Fund	0	0	0.9	1.3	1.5	1.6	1.7	2.0	2.2	2.4
29 Health Professions	0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
30 Core Public Health	0	0.1	0.3	0.3	0.4	0.4	0.3	0.2	0.1	0.1
31 Prevention	0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0

Continued

**TABLE 2. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
32 Capacity Building and Capital	0	0.3	0.5	0.5	0.4	0.2	0.1	0.1	0.0	0.0
33 OSHA and Workforce	0	0.3	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1
34 Supplemental Services	a	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0
35 Enabling Services	0	0.1	0.2	0.3	0.3	0.3	0.2	0.2	0.1	0.1
36 National Health Service Corps (NHSC)	0	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.0
37 Mental Health & Substance Abuse (CMMH&SA)	a	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
38 School Clinics	a	0.1	0.2	0.3	0.4	0.4	0.3	0.2	0.1	0.1
39 Indian Health Service	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total - Public Health Initiatives	a	1.4	3.2	3.9	4.0	3.9	3.5	3.1	3.0	3.0
40 Social Security Benefits	0	0	0.2	0.5	0.9	0.9	0.9	0.9	0.8	0.8
<b>MANDATORY OUTLAY CHANGES</b>	<b>-2.4</b>	<b>-4.9</b>	<b>11.0</b>	<b>24.7</b>	<b>33.4</b>	<b>41.3</b>	<b>39.2</b>	<b>21.7</b>	<b>12.1</b>	<b>7.2</b>
<b>DISCRETIONARY OUTLAYS</b>										
<u>Health Programs</u>										
41 Veterans' Programs	1.2	0.6	-2.9	-4.8	-4.9	-5.1	-5.2	-5.4	-5.6	-5.8
42 Indian Health Supplementary Services	0.7	1.2	1.5	1.6	1.6	1.6	1.6	1.6	1.7	1.7
43 Misc. Public Health Service Grants	a	a	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Health Programs	1.9	1.8	-1.4	-3.1	-3.3	-3.4	-3.6	-3.7	-3.9	-4.1
<u>Administrative Expenses</u>										
44 Administrative Costs	0.5	0.9	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.2
45 Costs to Administer the Mandate	0	0	0	0	0	2.0	2.0	2.0	2.0	2.0
46 Planning and Start-Up Grants	0.1	0.4	0.6	0.3	0	0	0	0	0	0
Total Studies, Administrative Expenses	0.6	1.3	1.6	1.3	1.0	3.0	3.1	3.1	3.1	3.2
<u>Studies, Research, Demonstrations, Other</u>										
47 EACH/MAF/Rural Transition Demonstrations	a	0.1	0.1	0.1	a	a	a	a	a	a
Total Studies, Research, Demonstrations, Other	a	0.1	0.1	0.1	a	a	a	a	a	a
<b>DISCRETIONARY OUTLAY CHANGES</b>	<b>2.5</b>	<b>3.2</b>	<b>0.3</b>	<b>-1.7</b>	<b>-2.3</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-0.6</b>	<b>-0.8</b>	<b>-0.9</b>
<b>TOTAL OUTLAY CHANGES</b>	<b>0.1</b>	<b>-1.6</b>	<b>11.4</b>	<b>22.9</b>	<b>31.1</b>	<b>40.9</b>	<b>38.7</b>	<b>21.1</b>	<b>11.3</b>	<b>6.3</b>

Continued

**TABLE 2. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>RECEIPTS</b>										
48 Increase in Tobacco Tax	0.7	2.7	4.5	6.1	7.6	7.4	7.1	6.9	6.8	6.7
49 1.75% Excise Tax on Private Health Ins Premiums	0	3.5	6.1	7.1	7.7	8.4	9.1	10.4	11.5	12.4
50 Add Medicare Part B Premiums for High-Income Individuals (\$80,000/\$100,000)	0	0	2.0	2.0	2.8	3.5	4.4	5.5	6.9	8.7
51 Increase Excise Tax on Hollow-Point Bullets	----- Negligible Revenue Loss -----									
52 Include Certain Service-Related Income in SECA/ Excl Certain Inven-Related Income from SECA										
a) General Fund Effect	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
b) OASDI Effect	0	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
53 Extend Medicare Coverage & HI Tax to All State and Local Government Employees	0	1.6	1.6	1.5	1.5	1.4	1.4	1.3	1.2	1.2
54 Impose Excise Tax with Respect to Plans Failing to Satisfy Voluntary Contribution Rules	0	a	a	a	a	a	a	a	a	a
55 Provide that Health Benefits Cannot be Provided thru a Cafeteria Plan/Flex Spend Arrangements	0	0.5	2.5	3.9	4.8	5.6	6.3	8.2	9.5	10.5
56 Extend/Increase 25% Deduction for Health Insurance Costs of Self-Employed Individuals	-0.5	-0.6	-1.2	-1.3	-1.4	-1.5	-1.6	-1.8	-2.0	-2.0
57 Limit on Prepayment of Medical Premiums	----- Negligible Revenue Gain -----									
58 Non-Profit Health Care Orgns/Taxable Orgns Providing Health Ins & Prepd Health Care Svcs	----- Negligible Revenue Effect -----									
59 Trmt of Certain Ins Companies Under Sect 833	0	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
60 Grant Tax Exempt Status to State Ins Risk Pools	a	a	0	0	0	0	0	0	0	0
61 Remove \$150 Million Bond Cap on Non-Hospital 501(c)(3) Bonds	a	a	a	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
62 Qualified Long-Term Care Benefits Treated as Medical Care; Clarify Tax Treatment of Long-Term Care Insurance and Services	0	a	-0.2	-0.3	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4
63 Tax Treatment of Accelerated Death Benefits Under Life Insurance Contracts	a	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
64 Increase in Reporting Penalties for Nonemployees	0	a	a	a	a	a	a	a	a	a

Continued

**TABLE 2. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
65 Post-Retirement Medical/Life Insurance Reserves	----- Negligible Revenue Effect -----									
66 Tax Credit for Practitioners in Underserved Areas	a	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	a	a	a
67 Increase Expensing Limit for Certain Med Equip	a	a	a	a	a	a	a	a	a	a
68 Tax Credit for Cost of Personal Assistance Svcs Required by Employed Individuals	0	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
69 Disclosure of Return Information to State Agencies	----- No Revenue Effect -----									
70 Impose Premium Tax with Respect to Certain High Cost Plans	0	a	0.9	2.2	3.3	6.1	9.5	10.2	11.2	14.7
71 Limit Exclusion for Employer-Paid Health Benefits	0	0	0	0	0	0	0	0	0	0.9
72 Indirect Tax Effects of Changes in Tax Treatment of Employer & Household Health Ins Spending	0	-0.3	-0.3	-0.7	-1.4	-2.1	-2.6	-11.1	-15.9	-19.0
<b>TOTAL RECEIPT CHANGES</b>	<b>0.2</b>	<b>7.3</b>	<b>15.7</b>	<b>20.2</b>	<b>24.4</b>	<b>28.3</b>	<b>33.2</b>	<b>29.1</b>	<b>28.6</b>	<b>33.5</b>
<b>DEFICIT</b>										
<b>MANDATORY CHANGES</b>	<b>-2.6</b>	<b>-12.2</b>	<b>-4.7</b>	<b>4.5</b>	<b>9.0</b>	<b>13.0</b>	<b>6.0</b>	<b>-7.4</b>	<b>-16.5</b>	<b>-26.3</b>
<b>CUMULATIVE MANDATORY TOTAL</b>	<b>-2.6</b>	<b>-14.8</b>	<b>-19.5</b>	<b>-15.0</b>	<b>-6.0</b>	<b>7.0</b>	<b>13.0</b>	<b>5.6</b>	<b>-10.9</b>	<b>-37.3</b>
<b>TOTAL CHANGES</b>	<b>-0.1</b>	<b>-8.9</b>	<b>-4.3</b>	<b>2.7</b>	<b>6.7</b>	<b>12.6</b>	<b>5.5</b>	<b>-8.0</b>	<b>-17.3</b>	<b>-27.2</b>
<b>CUMULATIVE DEFICIT EFFECT</b>	<b>-0.1</b>	<b>-9.1</b>	<b>-13.4</b>	<b>-10.6</b>	<b>-3.9</b>	<b>8.7</b>	<b>14.2</b>	<b>6.2</b>	<b>-11.1</b>	<b>-38.3</b>

SOURCES: Congressional Budget Office; Joint Committee on Taxation

NOTES:

The budgetary treatment of mandatory premium payments is under review.

The figures in this table include changes in authorizations of appropriations and in Social Security that would not be counted for pay-as-you-go scoring under the Budget Enforcement Act of 1990.

Provisions with no cost have been excluded from this table.

a. Less than \$50 million.

**TABLE 3. PRELIMINARY ESTIMATES OF THE STATE & LOCAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>OUTLAYS</b>										
<u>Medicaid</u>										
1 Discontinued Coverage of Acute Care	0	0	-17.9	-26.7	-29.8	-33.3	-37.2	-41.4	-45.9	-50.7
2 State Maintenance-of-Effort Payments	0	0	18.5	26.5	28.7	31.1	33.6	36.3	39.3	42.4
3 Disproportionate Share and Vulnerable Hospital Payments a/	0	0	1.1	-0.8	-0.6	-0.5	-0.1	0.2	0.5	0.8
4 Increase Asset Disregard to \$4000 for Home and Community Based Services	a	a	a	a	a	a	a	a	a	a
5 Offset to Medicare Prescription Drug Program	0	0	0	0	-0.5	-1.1	-1.2	-1.4	-1.6	-1.7
6 Administrative Savings	0	0	-0.2	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.7
Total - Medicaid	a	a	1.6	-1.4	-2.6	-4.3	-5.4	-6.9	-8.3	-9.9
<u>Administrative Expenses</u>										
7 Expenses Associated with Subsidies	0	0	3.6	5.1	5.5	6.0	6.5	7.1	7.7	8.3
8 General Administrative and Start Up Costs	0	0	1.0	1.1	1.1	1.2	1.3	1.4	1.5	1.6
9 Automobile Insurance Coordination	0	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total - Administrative Expenses	0	0.3	4.7	6.3	6.7	7.3	7.9	8.6	9.3	10.0
<u>Public Health Initiatives</u>										
10 School Health Clinics	0	0.1	0.1	0.2	0.3	0.5	0.5	0.5	0.3	0.2
<b>TOTAL OUTLAY CHANGES</b>	<b>a</b>	<b>0.3</b>	<b>6.4</b>	<b>5.1</b>	<b>4.4</b>	<b>3.5</b>	<b>3.1</b>	<b>2.2</b>	<b>1.3</b>	<b>0.3</b>
<b>RECEIPTS</b>										
11 Revenue Collected for Subsidy Administration	0	0	3.6	5.1	5.5	6.0	6.5	7.1	7.7	8.3
<b>Total State Changes</b>	<b>a</b>	<b>0.3</b>	<b>2.8</b>	<b>-0.0</b>	<b>-1.1</b>	<b>-2.5</b>	<b>-3.4</b>	<b>-4.9</b>	<b>-6.4</b>	<b>-8.0</b>

SOURCE: Congressional Budget Office.

a. The estimate assumes that states will continue to provide some assistance to hospitals serving disproportionately large numbers of uninsured or underinsured people.



**TABLE 4. PRELIMINARY ESTIMATES OF THE STATE & LOCAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>OUTLAYS</b>										
<u>Medicaid</u>										
1 Discontinued Coverage of Acute Care	0	0	-17.9	-26.7	-29.8	-33.3	-37.2	-41.4	-45.9	-50.7
2 State Maintenance-of-Effort Payments	0	0	18.5	26.5	28.7	31.1	33.6	36.3	39.3	42.4
3 Disproportionate Share and Vulnerable Hospital Payments a/	0	0	1.1	-0.8	-0.6	-0.5	-0.1	-5.0	-5.2	-5.5
4 Increase Asset Disregard to \$4000 for Home and Community Based Services	a	a	a	a	a	a	a	a	a	a
5 Offset to Medicare Prescription Drug Program	0	0	0	0	-0.5	-1.1	-1.2	-1.4	-1.6	-1.7
6 Administrative Savings	0	0	-0.2	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.7
<b>Total - Medicaid</b>	<b>a</b>	<b>a</b>	<b>1.6</b>	<b>-1.4</b>	<b>-2.6</b>	<b>-4.3</b>	<b>-5.4</b>	<b>-12.1</b>	<b>-14.0</b>	<b>-16.2</b>
<u>Administrative Expenses</u>										
7 Expenses Associated with Subsidies	0	0	3.6	5.1	5.5	6.0	6.5	7.5	8.2	8.9
8 General Administrative and Start Up Costs	0	0	1.0	1.1	1.1	1.2	1.3	1.4	1.5	1.6
9 Automobile Insurance Coordination	0	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total - Administrative Expenses</b>	<b>0</b>	<b>0.3</b>	<b>4.7</b>	<b>6.3</b>	<b>6.7</b>	<b>7.3</b>	<b>7.9</b>	<b>9.0</b>	<b>9.8</b>	<b>10.6</b>
<u>Public Health Initiatives</u>										
10 School Health Clinics	0	0.1	0.1	0.2	0.3	0.5	0.5	0.5	0.3	0.2
<b>TOTAL OUTLAY CHANGES</b>	<b>a</b>	<b>0.3</b>	<b>6.4</b>	<b>5.1</b>	<b>4.4</b>	<b>3.5</b>	<b>3.1</b>	<b>-2.6</b>	<b>-3.9</b>	<b>-5.4</b>
<b>RECEIPTS</b>										
11 Revenue Collected for Subsidy Administration	0	0	3.6	5.1	5.5	6.0	6.5	7.5	8.2	8.9
<b>Total State Changes</b>	<b>a</b>	<b>0.3</b>	<b>2.8</b>	<b>-0.0</b>	<b>-1.1</b>	<b>-2.5</b>	<b>-3.4</b>	<b>-10.1</b>	<b>-12.1</b>	<b>-14.3</b>

SOURCE: Congressional Budget Office.

a. The estimate assumes that states will continue to provide some assistance to hospitals serving disproportionately large numbers of uninsured or underinsured people.

**Table 5. Health Insurance Coverage  
(By calendar year, in millions of people)**

	1997	1998	1999	2000	2001	2002	2003	2004
<b>Baseline</b>								
Insured	224	226	228	229	230	232	233	234
Uninsured	<u>40</u>	<u>40</u>	<u>40</u>	<u>41</u>	<u>42</u>	<u>43</u>	<u>43</u>	<u>44</u>
Total	264	266	268	270	272	274	276	278
Uninsured as Percentage of Total	15	15	15	15	15	16	16	16
<b>Senator Mitchell's Proposal—Without Mandate in Effect</b>								
Insured <sup>a</sup>	250	253	255	257	259	261	262	264
Uninsured	<u>13</u>	<u>13</u>	<u>13</u>	<u>14</u>	<u>14</u>	<u>14</u>	<u>14</u>	<u>14</u>
Total	264	266	268	270	272	274	276	278
Uninsured as Percentage of Total	5	5	5	5	5	5	5	5
<b>Senator Mitchell's Proposal—With Mandate in Effect</b>								
Insured	250	253	255	257	259	274	276	278
Uninsured	<u>13</u>	<u>13</u>	<u>13</u>	<u>14</u>	<u>14</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	264	266	268	270	272	274	276	278
Uninsured as Percentage of Total	5	5	5	5	5	0	0	0

SOURCE: Congressional Budget Office.

a. Includes people eligible for coverage under the enrollment outreach provisions of the proposal.

**Table 6. Projections of National Health Expenditures  
(By calendar year, in billions of dollars)**

	1997	1998	1999	2000	2001	2002	2003	2004
<b>Baseline</b>	1,263	1,372	1,488	1,613	1,748	1,894	2,052	2,220
<b>Senator Mitchell's Proposal—Without Mandate in Effect</b>								
<b>Proposal</b>	1,301	1,401	1,519	1,647	1,779	1,923	2,079	2,246
<b>Change from Baseline</b>	38	29	31	33	31	29	27	25
<b>Senator Mitchell's Proposal—With Mandate in Effect</b>								
<b>Proposal</b>	1,301	1,401	1,519	1,647	1,779	1,943	2,093	2,254
<b>Change from Baseline</b>	38	29	31	33	31	48	41	34

SOURCE: Congressional Budget Office.

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**A PRELIMINARY ANALYSIS OF  
SENATOR MITCHELL'S HEALTH PROPOSAL**

**August 9, 1994**

**The Congress of the United States  
Congressional Budget Office**

## INTRODUCTION

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The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) have prepared this preliminary analysis of Senate Majority Leader George Mitchell's health proposal, as introduced on August 9, 1994. The analysis is based on the text of S. 2357 as printed on August 3 and on subsequent revisions specified by the Majority Leader's staff. Because the estimate does not reflect detailed specifications for all provisions or final legislative language, it must be regarded as preliminary.

The first part of the analysis is a review of the financial impact of the proposal. The financial analysis includes estimates of the proposal's effects on the federal budget, the budgets of state and local governments, health insurance coverage, and national health expenditures. It also includes a description of the aspects of the proposal that differ from S. 2357, as well as other major assumptions that affect the estimate.

The second part of the analysis comprises a brief assessment of considerations arising from the proposal's design that could affect its implementation. The issues examined in this discussion are similar to those considered in Chapters 4 and 5 of CBO's analyses of the Administration's health proposal and the Managed Competition Act.

## FINANCIAL IMPACT OF THE PROPOSAL

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Senator Mitchell's proposal aims to increase health insurance coverage by reforming the market for health insurance and by subsidizing its purchase. If these changes failed to increase health insurance coverage to 95 percent of the population by January 1, 2000, coverage would become mandatory in 2002 in states that fell short of the goal. Individuals in those states would be required to purchase insurance, and employers with 25 or more workers would be required to pay half of the cost of insurance for them and their families.

In CBO's estimation, the proposal would just meet its target of 95 percent coverage without imposing a mandate. Because the actual outcome could easily fall short of the estimate, however, this analysis shows the effects of the proposal both without the mandate and with the mandate in effect nationwide. In both cases, the proposal would slightly reduce the federal budget deficit, and it would ultimately reduce the pressure on state and local budgets as well. But the expansion of coverage would add to national health expenditures.

The estimated effects of the proposal are displayed in the six tables at the end of this document. Tables 1 and 2 show the effects on federal outlays, revenues, and the deficit. Tables 3 and 4 show the effects on the budgets of state

and local governments. Tables 5 and 6 provide projections of health insurance coverage and national health expenditures, respectively.

Like the estimates of other proposals for comprehensive reform--such as the single-payer plan, the Administration's proposal, the Managed Competition Act, and the bills reported by the Committees on Finance and Ways and Means--CBO's estimates of the effects of this proposal are unavoidably uncertain. Nonetheless, the estimates provide useful comparative information on the relative costs and savings of the different proposals. In estimating Senator Mitchell's proposal, CBO and JCT have made the following major assumptions about its provisions.<sup>1</sup>

### Health Insurance Benefits and Premiums

Senator Mitchell's proposal would establish a standard package of health insurance benefits, whose actuarial value would be based on that of the Blue Cross/Blue Shield Standard Option under the Federal Employees Health Benefits program. The Congressional Research Service and CBO estimate that such a benefit package would initially be 3 percent less costly than the average benefit of privately insured people today and 8 percent less costly than the benefit package in the Administration's proposal.

The proposal adopts the four basic types of health insurance units included in the Administration's proposal--single adult, married couple, one-parent family, and two-parent family. In addition, separate policies would be available for children eligible for subsidies, as explained below.

In general, workers in firms with fewer than 500 full-time-equivalent employees (and their dependents) and people in families with no connection to the labor force would purchase health insurance in a community-rated market. Firms employing 500 or more workers would be experience-rated. States would operate a risk-adjustment mechanism covering both community-rated and experience-rated plans, thereby narrowing the differences between the average premiums in the two insurance pools. The estimated average premiums in 1994 for

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1. For descriptions of CBO's estimating methodology, see Congressional Budget Office, *An Analysis of the Administration's Health Proposal* (February 1994), and *An Analysis of the Managed Competition Act* (April 1994).

the standard benefit package for the four types of policies in both pools are as follows:

Single Adult	\$2,220
Married Couple	\$4,440
One-Parent Family	\$4,329
Two-Parent Family	\$5,883

Supplementary insurance would be available to cover cost-sharing amounts and services not included in the standard benefit package.

### Subsidies

Starting in 1997, the proposal would provide subsidies for low-income people and certain firms to facilitate the purchase of health insurance. The system of subsidies would change somewhat if a mandate to purchase insurance went into effect. States would determine eligibility for subsidies and distribute subsidy payments to health plans.

Without a Mandate in Effect. The proposal would make low-income families eligible for premium subsidies. Recipients of Aid to Families with Dependent Children (AFDC) and families with income below 100 percent of the poverty level would be eligible for full subsidies, and those with income between 100 percent and 200 percent of poverty would be eligible for partial subsidies. For children and pregnant women, full subsidies would extend to 185 percent of the poverty level and partial subsidies to 300 percent of poverty. In addition, workers who become temporarily unemployed would be eligible for special subsidies for up to six months. Families could become eligible for more than one type of subsidy at the same time. Families could use the special subsidies for children and pregnant women to help purchase coverage for the entire family, or they could purchase coverage only for the eligible individuals.

States would be required to establish and administer a program of enrollment outreach that would allow people eligible for full subsidies of their premium to sign up for health insurance with health care providers whenever they sought health care services. People eligible for health insurance under this provision would be counted as insured in determining whether the target of 95 percent coverage is met.

In determining eligibility for premium subsidies, a family's income would be compared with the federal poverty level for that family's size. The maximum amount of the subsidy would be based on family income relative to the poverty level and on the weighted average premium for community-rated health plans in



the area. The estimate assumes that a family's subsidy could not exceed the amount it paid for coverage in a qualified health plan. Therefore, if an employer paid a portion of the premium, the subsidy could at most equal the family's portion of the premium.

People with income up to 150 percent of the poverty level, as well as AFDC recipients, would be eligible for reduced cost sharing if they were unable to enroll in a plan providing a low or combination cost-sharing schedule. AFDC recipients in low or combination cost-sharing plans would also be eligible for cost-sharing assistance. The amount of assistance would vary slightly for the two groups. In both cases, health insurance plans would be required to absorb the cost of the reduced cost sharing.

Employers who voluntarily expanded health insurance coverage to classes of workers whom they previously did not cover could also receive temporary subsidies. Employers would become eligible for a subsidy if they began paying at least 50 percent of the cost of coverage for an additional class of worker. In the first year, the amount of the subsidy for each worker would equal the difference between half of the average insurance premium in the area (or in the worker's plan, if lower) and 8 percent of the worker's wage. Over the following four years, the subsidy would be gradually phased out.

With Mandate in Effect. If a mandate to purchase insurance went into effect in a state, the system of subsidies would change. Subsidies for families with income up to 200 percent of the poverty level would remain, as would subsidies for people who were temporarily unemployed. The special subsidies for children and pregnant women would be eliminated, however, as would the subsidies for employers who voluntarily expanded coverage.

#### Medicaid and Medicare

Medicaid beneficiaries not receiving Supplemental Security Income or Medicare would be integrated into the general program of health care reform and would be eligible for federal subsidies in the same way as other low-income people. For these people, Medicaid would continue to cover services not included in the standard benefit package. For children, Medicaid would also continue to cover services whose scope or duration exceeded that in the standard package. States would be required to make maintenance-of-effort payments to the federal government based on the amount by which their Medicaid spending was reduced in the first year. The proposal would phase out federal Medicaid payments to disproportionate share hospitals and replace them with a program to make payments to financially vulnerable hospitals.

The proposal would expand Medicare by adding a prescription drug benefit for outpatients starting in 1999. The Secretary of Health and Human Services would set the deductible so that the net incurred cost of the benefit would total \$13.4 billion in the first year. In CBO's estimation, the initial deductible would be about \$700. The deductible would be indexed in later years so as to hold constant the proportion of Medicare beneficiaries receiving some drug benefit.

Reductions in Medicare spending would provide a major part of the funding for the proposal. The growth in reimbursement rates for hospitals covered by Medicare's prospective payment system would be reduced by 1 percentage point in 1997 and by 2 percentage points each year from 1998 through 2004. Payments to disproportionate share hospitals would be cut in half. Reimbursements to physicians and other providers of health care services would also be restrained. Beneficiaries would be required to pay higher premiums for Supplementary Medical Insurance (SMI) and part of the cost of laboratory services and home health care.

#### Other Spending

The proposal would restructure the system of subsidies for medical education and academic health centers. Current payments from Medicare for direct and indirect medical education would be terminated. New programs would provide assistance for academic health centers, graduate medical education, graduate training for nurses, medical schools, schools of public health, and dental schools.

The proposal would create several additional mandatory spending programs. A capped entitlement program would help states finance home- and community-based care for the severely disabled; spending for this program would be limited to \$48 billion over the 1998-2004 period. A biomedical and behavioral research trust fund would be financed by a portion of the assessment on private health insurance premiums starting in 1997. The proposal would also provide direct spending authority for a variety of public health initiatives totaling almost \$10 billion in the 1996-1999 period and almost \$15 billion in the 1996-2004 period.

The assurance of access to health insurance and the provision of subsidies to low-income families would encourage some older workers to retire earlier and would raise outlays for Social Security retirement benefits. Over the long term, Social Security would incur no additional costs, because benefits are actuarially reduced for early retirement.

### Revenues

The Joint Committee on Taxation has estimated the impact of the provisions of the proposal that would affect federal revenues. The bulk of the additional revenues would stem from an increase in the tax on tobacco, a 1.75 percent excise tax on private health insurance premiums, and a tax on health plans whose premiums grew by more than a specified rate. The proposal would also increase SMI premiums for single individuals with income over \$80,000 and couples with income over \$100,000.

### Fail-Safe Mechanism

The proposal would scale back eligibility for premium subsidies, increase the deductible for the Medicare drug benefit, and reduce every other new direct spending program as necessary to offset an increase of more than \$10 billion in the cost of the bill and the Medicare and Medicaid programs compared with the initial estimate. Because the reductions would be applied proportionately, to the extent possible, to all the direct spending programs in the proposal, the bulk of any savings would have to come from limiting eligibility for subsidies. As a result, application of the fail-safe mechanism could make previously eligible people ineligible for subsidies and would, in the absence of a mandate, reduce the extent of health insurance coverage.

### Budgetary Treatment of the Mandate

A mandate requiring that individuals purchase health insurance would be an unprecedented form of federal action. The government has never required individuals to purchase any good or service as a condition of lawful residence in the United States. Therefore, neither existing budgetary precedents nor concepts provide conclusive guidance about the appropriate budgetary treatment of a mandate. Good arguments can be made both for and against including in the federal budget the costs to individuals and firms of complying with the mandate. It is only appropriate, therefore, for policymakers to resolve the issue through legislation.

Some budget analysts argue that the costs of the mandate should be included in the federal budget because these transactions would be predominantly public in nature. A second argument for inclusion, closely related to the first, is that the premiums that people would have to pay to comply with the mandate would be compulsory payments and should therefore be recorded as governmental receipts. A third argument is that including these costs in the budget would

preserve the federal budget as a comprehensive measure of the amount of resources allocated through collective political choice at the national level.

There are also cogent arguments against including the costs of complying with the mandate in the budget. First, the costs would not flow through federal agencies or other entities established by federal law. Unlike the Administration's proposal, this proposal would not require participation in federally mandated health alliances. Second, this approach would be consistent with the current practice of excluding from the budget the costs to private firms of federal regulatory mandates. Third, the costs of compliance could not be directly observed and would not flow through the federal Treasury.

## OTHER CONSIDERATIONS

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Like other fundamental reform proposals, Senator Mitchell's would require many changes in the current system of health insurance. For the proposed system to function effectively, new data would have to be collected, new procedures and administrative mechanisms developed, and new institutions and administrative capabilities created. In preparing the quantitative estimates presented in this assessment, the Congressional Budget Office has assumed not only that all those things could be done but also that they could be accomplished in the time frame laid out in the proposal.

There is a significant chance that the substantial changes required by this proposal--and by other systemic reform proposals--could not be achieved as assumed. The following discussion summarizes the major areas of potential difficulty as well as some other possible consequences of the proposal.

### Risk Adjustment

Most health care proposals that would create community-rated markets for health insurance also incorporate provisions to adjust health plans' premiums for the actuarial risk of their enrollees. These provisions are intended to redistribute premium payments among health plans, compensating them for differences in risk. Although effective risk-adjustment mechanisms would be essential for the functioning of community-rated markets, the feasibility of developing and implementing such mechanisms successfully in the near future is highly uncertain.

The risk-adjustment mechanism in this proposal is more complex than those in other proposals analyzed by CBO. Most other proposals would restrict risk adjustment to the community-rated market; in Senator Mitchell's proposal, risk adjustment would operate in both the community-rated and the experienced-rated

markets in each community-rating area. The risk-adjustment mechanism would attempt to recompense plans for the higher costs associated with certain groups of enrollees. It would also adjust payments to health plans to reflect the cost-sharing subsidies for low-income participants that health plans would have to absorb. Such transfers would ensure that plans enrolling large numbers of low-income people were not placed at a cost disadvantage. As discussed below, implementing the risk-adjustment process would be a major undertaking for the states.

### States' Responsibilities

Most proposals to restructure the health care system incorporate major additional administrative and regulatory functions that new or existing agencies or organizations would have to undertake. Like several other proposals, this one would place significant responsibility on the states for developing and implementing the new system. It is doubtful that all states would be ready to assume their new responsibilities in the time frame envisioned in the proposal.

Under the voluntary system, the states' primary responsibilities would fall into four major areas:

- o determining eligibility for the new subsidies and the continuing Medicaid program;
- o administering the subsidy and Medicaid programs;
- o establishing the infrastructure for the effective functioning of health care markets; and
- o regulating and monitoring the health insurance industry.

States would also have to prepare for the possibility that mandates requiring firms with 25 or more employees to provide insurance and all individuals to obtain coverage might be invoked in 2002. If that occurred, those states with coverage rates below 95 percent would need to have the necessary infrastructure already in place. In addition, they would have to be prepared to expand their regulatory and monitoring functions considerably.

Determining Eligibility for Subsidies and Medicaid. As with other proposals, determining eligibility for subsidies would be an enormous task for the states, made more complicated by the three different subsidy programs for premiums that would be in effect: regular subsidies for low-income individuals and families; special subsidies for children and pregnant women; and special subsidies for

people who were temporarily unemployed. The eligibility criteria would be different for each of these programs and would also differ from those of the Medicaid program. (The role of the Medicaid program in paying for acute care services would be significantly reduced. The program would, however, cover wraparound benefits for those subsidized families who would be eligible for Medicaid under current law. It would also pay for emergency services for illegal aliens and would continue to cover beneficiaries of the Supplemental Security Income program and Medicare beneficiaries who qualified for Medicaid.) Some families would be eligible to participate in more than one subsidy program concurrently, and this proposal would allow them to do so in certain circumstances. They might also be entitled to receive Medicaid wraparound benefits.

States would bear the responsibility for the required end-of-year reconciliation process in which the income of a subsidized family was checked to ensure that the family received the appropriate premium subsidy. Reconciliation would be a major undertaking since, even if federal income tax information could be used, many of the families receiving subsidies would not be tax filers. Tracking people who moved from one state to another during the year would also be difficult and would require extensive cooperation among the states.

Administering the Subsidy and Medicaid Programs. The states would have other major administrative responsibilities for the subsidy and Medicaid programs. In particular, they would make payments for premium subsidies to health plans and would be required to develop and implement a complex outreach initiative to expand enrollment.

The outreach program would be designed to ensure that people eligible for full subsidies would be able to enroll in health plans on a year-round basis and would not be denied coverage for preexisting conditions. They would also be able to have their eligibility for subsidies established presumptively by certain health care providers at the point of service, enabling them to enroll in health plans and receive full premium subsidies for a period of 60 days during which they could apply for continuing assistance. States would not be held responsible for premium assistance provided to low-income families on a presumptive basis, if those families subsequently proved to be ineligible for full subsidies. Instead, the federal government would bear those costs.

The program would guarantee that poor families, as well as children and pregnant women with income up to 185 percent of the poverty level, had financial access to the health care system when they needed care. It would, however, be difficult to administer, and its success in enrolling low-income families in health plans on a permanent basis would depend on extensive outreach efforts by the states to ensure that people declared presumptively eligible completed the full process for determining eligibility. The program would be considerably more

complex than the current presumptive eligibility programs for pregnant women that are operated by Medicaid programs in about 30 states. Those programs are dealing with a clearly defined target population of individuals and only one health plan--the Medicaid program. By contrast, the system envisioned under the proposal would be dealing with the enrollment of individuals plus their families in their choice of health plan.

Establishing the Infrastructure for the Effective Functioning of Health Care Markets. States would designate the geographic boundaries for the community-rating areas as well as the service areas for carrying out the provisions regarding essential community providers. They would also have ongoing responsibilities for ensuring that health care markets functioned effectively. Those responsibilities would include developing and implementing the complex risk-adjustment and reinsurance system and providing information and assistance to consumers.

Each state would be required to establish a risk-adjustment organization. That agency would determine the adjustments to be made to premiums for all community-rated and experience-rated plans in each community-rating area in the state. The agency would collect assessments from health plans and redistribute the payments to community-rated and experience-rated plans whose expected expenditures exceeded the average for enrollees in standard health plans.

State risk-adjustment organizations would also have to address the special issues raised by multistate plans. When such plans owed risk-adjustment assessments, they would make payments on behalf of all their enrollees in different states to a single state risk-adjustment organization. The designated organization would determine the applicable assessments for the plan's enrollees in each community-rating area across the country and would make payments to other state risk-adjustment organizations as required.

Another responsibility of the states would be to provide consumers with the necessary information to make informed choices among health plans. States would be required to produce annual standardized reports comparing the performance of all health plans in the state, using data from surveys designed and carried out by the federal government. To do so effectively would require states to establish systems for analyzing data and qualitative information. In each state, a private nonprofit organization under contract to the federal government would distribute the reports, educate and provide outreach to consumers, and help them to enroll in health plans. States would also be required to establish an office in each community-rating area to provide a forum for resolving disputes over claims or benefits.

Regulating and Monitoring the Health Insurance Industry. Like most other health care proposals, this one would place major new responsibilities on state

health insurance departments. They would have to certify standard health plans and health insurance purchasing cooperatives (HIPCs), establish separate guaranty funds for community-rated and self-insured health plans, monitor variation in the marketing fees of HIPCs and other systems for purchasing insurance, and ensure that carriers met minimum capital requirements. Moreover, the standards that health plans would have to meet would be largely federally determined and would include areas, such as data collection and reporting, that are outside the traditional purview of insurance regulators. It is doubtful that all states could develop the capabilities to perform these functions effectively in the near future.

Preparing for and Implementing Individual and Employer Mandates. If insurance coverage nationwide was below 95 percent in 2000, those states in which the coverage rate was below 95 percent would have to be prepared to implement individual and employer mandates in 2002--the year that those mandates would go into effect. The affected states would have to establish mechanisms--possibly through designated HIPCs--to collect and redistribute premium payments from employers with workers enrolled in other employers' health plans. They would have to set up systems to ensure that employers and families complied with the mandates, and they would have to prepare low-income families for the possibility that their subsidies could change significantly.

### The System of Multiple Subsidies

In order to maximize voluntary enrollment in health plans, Senator Mitchell's proposal would establish multiple schedules of subsidies for premiums, targeting special populations as well as low-income families in general. The basic system of subsidies would cover individuals and families with income up to 200 percent of the poverty level. Added to this would be subsidies for children and pregnant women with family income up to 300 percent of the poverty level. In addition, a special initiative would provide subsidies for workers and their families when the workers were temporarily unemployed; the subsidies would be available for a period of unemployment not to exceed six months. Integrating these three subsidies in a sensible and administrable fashion would be extremely difficult, especially as some families could receive subsidies from more than one program.

The subsidies for people who were temporarily unemployed would be particularly hard to administer and monitor. It would be difficult, for example, to determine whether people had left their jobs voluntarily or involuntarily, or whether they could receive employer contributions for health insurance through an employed spouse. Moreover, because of the way these subsidies would be structured, significant horizontal inequities could result. That is, families with similar income could receive quite different subsidy amounts. In determining their eligibility for subsidies, people who were temporarily unemployed could



subtract from their family income the lesser of their gross wages or a flat amount equal to 75 percent of the poverty-level income for an individual for each month the worker was employed. In addition, they could subtract any unemployment compensation they received while unemployed. Consequently, people who were unemployed for several months could receive larger subsidies than year-round workers with similar annual income. Workers in seasonal businesses--construction workers and resort employees, for example--would be particularly favored. The incentives inherent in this subsidy could increase unemployment slightly.

### The Tax on High-Cost Health Plans

Like the tax contained in the bill reported by the Committee on Finance, the tax on the premiums of "high-cost" health plans in Senator Mitchell's proposal would be difficult to implement. In addition, its contribution to containing health care costs would be limited, and it might be considered inequitable and an impediment to expanding coverage.

The tax would be a 25 percent levy on the amount by which health insurance premiums for a standard health plan exceeded a "reference" premium. Separate reference premiums would be established annually by the Secretary of the Treasury for each class of coverage in each community-rating area and for each experience-rated plan. These determinations would be extremely complex and difficult to make, requiring adjustments for demographic characteristics (age, sex, and socioeconomic status), health status, current levels of health care expenditures, uninsurance and underinsurance, the presence of academic health centers, and other factors. Little reliable information of this sort is available, and the Secretary would have to collect a mass of new information. With the reference premiums affecting not only tax liability but also premium levels, the process could prove to be quite controversial.

Although the tax would not be imposed on community-rated plans operating in areas where the average premium did not exceed the national average reference premium, few if any areas would meet that test for more than the first year or two because the reference premiums would be constrained to grow far more slowly than the expected growth of health insurance premiums. In community-rating areas, the growth would be 3 percentage points over the consumer price index in 1997, declining to 2 percentage points over the CPI by 1999.

Unlike the taxes contained in the Managed Competition Act and the bill reported by the Committee on Finance, which would not affect the lowest-cost plans, virtually all plans would be subject to the assessment called for in Senator Mitchell's proposal. Such an assessment would increase premiums, and higher

premiums would discourage participation during the voluntary period. The tax would be imposed in 1997 on plans in the community-rated market, in which small firms and most of the uninsured would obtain coverage. In contrast, the experience-rated market would not be subject to the tax until 2000, and that differential treatment might be viewed as inequitable.

Although the proposal would provide sponsors of health plans with the right to recover half of the tax from health care providers, providers would incorporate their portion of the expected tax into their charges, so the right of recovery would be unlikely to have any real effect on the cost of health insurance. Moreover, because the mechanics of enforcing the right of recovery are unclear, the provision might lead to costly and unproductive litigation.

The proposal would be, in effect, a tax cap, but one imposed on the providers of health insurance rather than its consumers. A tax cap is an important element in the managed competition approach to controlling health care costs, and a tax on providers could serve this purpose effectively. However, this tax, by exempting cost-sharing and other supplemental policies, would provide much less incentive for containing costs.

Research by the RAND Corporation and others indicates that a tax cap might constrain costs in either of two primary ways: by encouraging consumers to choose health insurance plans with greater cost sharing (that is, higher copayments and deductibles) or by encouraging the use of managed care providers like health maintenance organizations (HMOs) that can control costs more effectively than fee-for-service plans. This tax, however, would not apply to supplemental insurance policies that cover cost sharing. Workers whose employers provided cost-sharing supplements would pay less tax than workers whose employers did not and instead paid higher wages, and the average employee probably would pay lower copayments and deductibles under the proposal than under a tax cap that applied to supplements as well as to basic insurance. Furthermore, HMOs and similar types of managed care arrangements, which build the cost of the low copayments and deductibles into their premiums, would be placed at a tax disadvantage compared with less cost-effective fee-for-service plans in which the cost-sharing supplements would be tax-free.

A final reason that the tax's promise of cost containment would remain far below its potential relates to the method for calculating reference premiums for experience-rated plans. These premiums would be calculated based on actual expenditures during the 1997-1999 period, which could undermine the incentive for experience-rated plans to economize before the tax took effect in 2000.

### The Effects of Invoking Mandates

If less than 95 percent of the population had insurance coverage on January 1, 2000, and if the Congress did not enact alternative legislation before the end of that year, mandates on employers and consumers would automatically come into effect in 2002. The proposed mandatory system would be problematic for several reasons.

The mandates would be imposed only in states that had failed to meet the 95 percent threshold for coverage. In those states, all firms with 25 or more workers would be required to contribute to the costs of health insurance for their employees, and all individuals and families would be required to obtain coverage. These requirements would produce inefficient reallocations of business activity. Some firms that did not wish to provide insurance would migrate to states that were not included in the mandate. Furthermore, because the transitional subsidies for employers that voluntarily expanded coverage to additional workers would terminate in mandated states, some firms might be attracted to nonmandated states where these temporary subsidies would still be available.

Moreover, the practical problems of implementing mandates in some states and not in others could be overwhelming, especially in border markets. What, for example, would happen to individuals who lived in mandated states but worked for employers that did not contribute to the cost of insurance in neighboring, nonmandated states?

The system of subsidies for families would also change significantly in the mandated states, raising concerns about affordability and equity. The special subsidies for low-income children and pregnant women would be dropped, making health insurance more expensive for some low-income families without an employer contribution, even though they would now be required to purchase coverage. (For example, a family with income at 150 percent of the poverty level and no employer contribution in a mandated state would have to pay 50 percent of a family premium. A similar family in a nonmandated state might be able to combine regular subsidies and special subsidies and pay far less than 50 percent of the premium for a family policy.) Concerns about the affordability of health insurance under a mandate would be heightened because the incentives to contain costs in this proposal are limited.

Because of the disruptions, complications, and inequities that would result, CBO does not believe that it would be feasible to implement the mandated system in some states but not in others; the system would have to include either all states or none. Accordingly, CBO's cost estimates of the mandated system assume that a nationwide mandate would be in effect.

### Reallocation of Workers Among Firms

Senator Mitchell's proposal, like many other reform bills, would encourage a reallocation of workers among firms in ways that would increase its budgetary cost. That process would occur gradually as employment expanded in some firms and contracted in others and as workers sought the jobs that would provide them with the largest combined amount of wages and premium subsidies.

In the voluntary system, this sorting would occur because the family subsidies would be reduced by up to the amount that employers contributed for insurance; therefore, a worker employed by a firm that did not pay for health insurance would receive a larger subsidy than a worker earning the same wage at a firm that did pay. (In addition to this reallocation, some companies might stop paying for insurance, but the number of firms that would do so would be limited because high-wage workers in those firms would lose the benefit of excluding health insurance from their taxable income.) Some sorting would also occur because firms that expanded insurance coverage to classes of workers not previously covered would be eligible for temporary subsidies; workers employed by those firms could receive higher take-home pay for a few years than could workers at firms that currently provide them with insurance coverage.

In the mandated system, reallocation of workers would occur because some workers would pay less for health insurance if they were employed by small firms excluded from the mandate than they would if they were employed by firms covered by the mandate. For example, many low-wage workers could receive a larger subsidy for their insurance costs in uncovered firms than in covered firms. In addition, married couples with both spouses working would have an incentive under the proposal to have one spouse employed by an uncovered firm, because if both spouses worked in covered firms, they would each have to pay something for insurance. A similar incentive exists in the current system, but by requiring more firms to provide insurance coverage than do now, the proposal would affect more people.

Under both the voluntary and mandated systems, some workers could gain several thousand dollars in higher wages by moving between firms, and over time a significant number of them would probably do so. This reallocation of workers among firms accounts for about \$14 billion of the cost of the subsidies in 2004 under the voluntary system and for about \$8 billion in 2004 under the mandated system. In addition to raising the government's costs, the reallocation of workers could reduce the efficiency of the labor market.

Finally, the subsidy system would not treat people with similar incomes and family circumstances alike. Under the voluntary system, for example, workers eligible for subsidies who worked at firms that paid for insurance would face

larger costs for their insurance when the reduction in their cash wages is taken into account than similar workers at firms that did not pay.

### Work Disincentives

Senator Mitchell's proposal would discourage certain low-income people from working more hours or, in some cases, from working at all, because subsidies would be phased out as family income increased. It is important to note that work disincentives are an inherent element of all health proposals that target subsidies toward the poor and near-poor, and that these subsidies would significantly improve the well-being of many low-income people by assisting their purchase of health insurance.

In both the voluntary and mandated systems, many workers who earned more money within the phaseout range would have to pay more for health insurance, which would cut into the increase in their take-home wage. In essence, these workers would face an implicit tax on their economic advancement. Changing the design of the subsidy systems in this proposal could reduce the marginal levy on some people's income, but it might raise the marginal levy faced by other people or make insurance unaffordable for some people.

The Voluntary System. Estimating the precise magnitude of the implicit tax rates in the voluntary system requires information that is not readily available, but rough calculations suggest that the rates could be extremely high for some families. For workers whose employers did not pay for insurance, the implicit marginal rates from the phaseout of subsidies for low-income families would apply to income between 100 percent and 200 percent of the poverty level, and the phaseout of subsidies for children and pregnant women would apply to income between 185 percent and 300 percent of poverty.

In 2000, the effective marginal tax on labor compensation (wages and benefits) could increase by as much as 30 to 55 percentage points for workers with family income in the phaseout range. Moreover, those levies would be added to the explicit and implicit marginal taxes that such workers already pay through the income tax, the payroll tax, and the phaseout of the earned income tax credit. In the end, some low-wage workers would keep as little as 15 cents of every additional dollar they earned.

For workers whose employers paid some of the costs for insurance, these marginal levies would apply to income in a much smaller range. However, such treatment of employer payments would also create the previously described incentive for workers to move to firms that did not pay for insurance.

The Mandated System. Rough calculations suggest that the implicit marginal rates from the phaseout of subsidies under the mandated system could also be extremely high for some families. These rates would apply to income between 100 percent and 200 percent of the poverty level for workers in uncovered firms. For workers in covered firms, these marginal levies would apply to workers in a smaller income range. In 2002, the effective marginal tax on labor compensation could increase by as much as 35 to 55 percentage points for workers who received subsidies. As in the voluntary system, this new levy would be added to the explicit and implicit marginal taxes that these workers already face, producing total marginal tax rates of more than 95 percent for some workers.

The mandated system would also discourage some people who have spouses working at covered firms from participating in the labor force or at least from taking a job at a firm with more than 25 employees. If those people took a job at a covered firm, their wages would be reduced by the additional cost for insurance but they would receive no additional benefits. The current system also discourages some of these people from working at firms that pay for insurance, but by requiring more firms to provide insurance coverage, the proposal would increase the number of people who were affected.

In the mandated system, the combination of the subsidies and the requirement to purchase insurance would increase the effective income of people who wanted insurance at the net-of-subsidy price, but would reduce the economic well-being of people who would have preferred not to buy insurance. Because the net-of-subsidy price (including employer payments) would be high for many families, the number of people who valued insurance at less than its cost could be large. For example, for a family of two adults (one working in a covered firm) and two children, with income just below the poverty threshold in 2002, the firm contributing 50 percent of the premium would pay more than \$5,000 on the worker's behalf for insurance; that would represent roughly one-quarter of the family's income.

### Effect on Employment

If the voluntary system in Senator Mitchell's proposal did not result in insurance coverage for 95 percent of the population, mandates would be triggered unless the Congress adopted an alternative approach. Under the mandated system, firms with more than 25 employees would be required to contribute to each worker's health insurance. The imposition of the mandate would raise the cost of employing workers at firms that do not currently provide insurance. Economic theory and empirical research both imply that most of this increased cost would be passed back to workers over time in the form of lower take-home wages. Such shifting would not be possible, however, for workers whose wages

were close to the federally regulated minimum wage. Therefore, the net cost of employing those workers would be raised by the mandate, and some of them would lose their jobs.

Nevertheless, the quantitative effect of the mandate in this proposal would probably be quite small because the mandate would not be implemented until 2002. Market wages for low-income workers will rise over time, reflecting general inflation and, probably, some share of the nation's real economic growth. As a result, few workers will be earning the current minimum wage by 2002. If the Congress did not raise the minimum wage, loss of jobs from this mandate would likely be very limited.

Employment would also be affected by the implicit taxes on work described above. In both the voluntary and mandated systems, some workers would voluntarily withdraw from the labor force in response to the new incentives they faced.

**TABLE 1. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL  
WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>MANDATORY OUTLAYS</b>										
<b>Medicaid</b>										
1 Discontinued Coverage of Acute Care	0	0	-23.8	-35.6	-39.7	-44.4	-49.6	-55.2	-61.2	-67.6
2 State Maintenance-of-Effort Payments	0	0	-18.5	-26.5	-28.7	-31.1	-33.6	-36.3	-39.3	-42.4
3 Disproportionate Share Hospital Payments	0	0	-8.8	-13.4	-14.8	-15.6	-18.8	-20.7	-22.9	-25.2
4 Increase Asset Disregard to \$4000 for Home and Community Based Services	a	a	a	a	a	a	a	0.1	0.1	0.1
5 Offset to Medicare Prescription Drug Program	0	0	0	0	-0.7	-1.5	-1.6	-1.9	-2.1	-2.3
6 Administrative Savings	0	0	-0.3	-0.5	-0.5	-0.6	-0.7	-0.8	-0.8	-0.9
<b>Total - Medicaid</b>	<b>a</b>	<b>a</b>	<b>-51.4</b>	<b>-76.0</b>	<b>-84.4</b>	<b>-93.2</b>	<b>-104.3</b>	<b>-114.8</b>	<b>-126.2</b>	<b>-138.3</b>
<b>Medicare</b>										
7 Part A Reductions										
Inpatient PPS Updates	0	0	-0.3	-1.6	-3.4	-5.6	-8.0	-10.7	-13.8	-17.4
Capital Reductions	0	-0.8	-1.0	-1.2	-1.6	-2.1	-2.2	-2.4	-2.7	-2.9
Disproportionate Share Hospital Reductions	0	0	-1.7	-2.1	-2.3	-2.5	-2.8	-3.1	-3.4	-3.7
Skilled Nursing Facility Limits	0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3
Long Term Care Hospitals	a	a	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4
Medicare Dependent Hospitals	a	0.1	0.1	0.1	a	a	0	0	0	0
Sole Community Hospitals	a	a	a	a	a	a	a	a	a	a
Part A Interactions	0	0	0.1	0.2	0.4	0.6	0.7	0.9	1.1	1.3
8 Essential Access Community Hospitals										
Medical Assistance Facility Payments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Rural Primary Care Hospitals (RPCH) Pmts	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
9 Part B Reductions										
Updates for Physician Services	-0.4	-0.6	-0.6	-0.7	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1
Real GDP for Volume and Intensity	0	0	-0.3	-0.8	-1.6	-2.5	-3.3	-4.2	-5.3	-6.6
Eliminate Formula Driven Overpayments	-0.8	-1.0	-1.3	-1.8	-2.3	-3.2	-4.2	-5.5	-7.1	-9.1
Competitive Bid for Part B	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Competitive Bid for Clinical Lab Services	a	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-0.6
Elimination of Balance Billing	0	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Laboratory Coinsurance	-0.7	-1.1	-1.3	-1.4	-1.6	-1.8	-2.0	-2.3	-2.6	-2.9
Correct MVPS Upward Bias	0	0	0	0	-0.2	-0.6	-1.4	-2.6	-3.9	-5.5
Eye & Eye/Ear Specialty Hospitals	a	a	a	0	0	0	0	0	0	0
Nurse Pract/Phys Asst Direct Payment	0	0	0.1	0.2	0.3	0.3	0.4	0.5	0.6	0.7
High Cost Hospitals	0	0	0	-0.5	-0.8	-0.8	-0.8	-0.9	-1.0	-1.0
Durable Medical Equipment Price Reduction	a	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
Permanent Extension of 25% Part B Premium	0	0.6	0.9	1.4	0.6	-1.0	-2.8	-5.0	-7.7	-9.8

Continued



**TABLE 1. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>10 Parts A and B Reductions</b>										
Home Health Copayments (20%)	-0.7	-3.4	-4.2	-4.6	-5.0	-5.5	-5.9	-6.4	-7.0	-7.6
Medicare Secondary Payer	0	0	0	0	-1.2	-1.8	-1.9	-2.0	-2.2	-2.3
Home Health Limits	0	0	-0.3	-0.6	-0.7	-0.7	-0.8	-0.9	-1.0	-1.0
Expand Centers of Excellence	0	-0.1	-0.1	-0.1	-0.1	-0.1	a	a	0	0
Extend ESRD Secondary Payer to 24 Months	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
<b>11 Medicare Outpatient Prescription Drug Benefit</b>	0	0	0	0	6.2	14.4	15.7	17.5	19.7	21.5
<b>Total - Medicare</b>	<b>-2.4</b>	<b>-6.6</b>	<b>-10.2</b>	<b>-14.1</b>	<b>-14.7</b>	<b>-14.3</b>	<b>-21.1</b>	<b>-26.9</b>	<b>-38.1</b>	<b>-48.4</b>
<b>Subsidies</b>										
12 Persons between 0-200% of Poverty	0	0	66.7	95.4	105.3	116.8	129.3	142.7	157.3	172.3
13 Pregnant Women and Kids 0-300% of Poverty					----- Included in Line 12 -----					
14 Temporarily Unemployed	0	0	0.0	5.0	7.1	7.7	8.3	9.0	9.8	10.6
15 Enrollment Outreach	0	0	1.3	3.3	5.2	6.9	8.4	9.9	10.8	11.3
<b>Total - Subsidies</b>	<b>0</b>	<b>0</b>	<b>68.0</b>	<b>103.7</b>	<b>117.6</b>	<b>131.3</b>	<b>146.1</b>	<b>161.6</b>	<b>177.9</b>	<b>194.3</b>
<b>Other Health Programs</b>										
16 Vulnerable Hospital Payments	0	0	0	2.5	2.5	2.5	2.5	2.5	2.5	2.5
17 Veterans' Programs	0	0	-1.4	-1.4	-1.7	-1.8	-1.9	-2.0	-2.0	-2.1
18 Home and Community Based Care (\$48 bil. cap)	0	0	0	1.8	2.9	3.6	5.0	7.9	11.4	15.4
19 Life Care	0	0	-0.6	-1.1	-1.1	-0.3	-0.3	-0.3	-0.3	-0.3
20 Academic Health Centers	0	0	4.7	7.0	8.0	9.1	10.3	11.0	11.5	12.1
21 Graduate Medical and Nursing Education	0	0	2.6	3.9	5.8	6.4	6.6	6.8	7.2	7.5
22 Medicare Transfer - Direct Medical Education	0	0	-1.6	-2.4	-2.5	-2.6	-2.8	-2.9	-3.1	-3.3
23 Medicare Transfer - Indirect Medical Education	0	0	-3.4	-4.9	-5.4	-5.9	-6.5	-7.2	-7.9	-8.7
24 Public Health Schools; Dental Schools	0	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
25 Women, Infants and Children	0	0.3	0.5	0.5	0.5	0.5	a	0	0	0
26 Administration of Enrollment Outreach	0	0	0.4	0.7	0.9	1.0	1.1	1.3	1.4	1.4
<b>Total - Other Health Programs</b>	<b>0</b>	<b>0.3</b>	<b>1.3</b>	<b>6.7</b>	<b>10.0</b>	<b>12.6</b>	<b>14.1</b>	<b>17.2</b>	<b>20.8</b>	<b>24.6</b>
<b>Public Health Initiative</b>										
27 Biomedical and Behavioral Research Trust Fund	0	0	0.9	1.4	1.5	1.6	1.7	1.9	2.1	2.2
28 Health Professions	0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
29 Core Public Health	0	0.1	0.3	0.3	0.4	0.4	0.3	0.2	0.1	0.1
30 Prevention	0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
31 Capacity Building and Capital	0	0.3	0.5	0.5	0.4	0.2	0.1	0.1	0.0	0.0

Continued

**TABLE 1. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
32 OSHA and Workforce	0	0.3	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1
33 Supplemental Services	0	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0
34 Enabling Services	0	0.1	0.2	0.3	0.3	0.3	0.2	0.2	0.1	0.1
35 National Health Service Corps (NHSC)	0	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.0
36 Mental Health & Substance Abuse (CMMH&SA)	0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
37 School Clinics	0	0.1	0.2	0.3	0.4	0.4	0.3	0.2	0.1	0.1
38 Indian Health Service	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total - Public Health Initiatives	0	1.4	3.2	3.9	4.0	3.9	3.5	3.0	2.8	2.9
39 Social Security Benefits	0	0	0.2	0.5	0.9	0.9	0.9	0.9	0.8	0.8
<b>MANDATORY OUTLAY CHANGES</b>	<b>-2.4</b>	<b>-4.9</b>	<b>11.1</b>	<b>24.7</b>	<b>33.4</b>	<b>41.3</b>	<b>39.2</b>	<b>39.0</b>	<b>37.9</b>	<b>35.9</b>
<b>DISCRETIONARY OUTLAYS</b>										
<u>Health Programs</u>										
40 Veterans' Programs	1.2	0.6	-2.9	-4.8	-4.9	-5.1	-5.2	-5.4	-5.6	-5.8
41 Indian Health Supplementary Services	0.7	1.2	1.5	1.6	1.6	1.6	1.6	1.6	1.7	1.7
42 Misc. Public Health Service Grants	a	a	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Health Programs	1.9	1.8	-1.4	-3.1	-3.3	-3.4	-3.6	-3.7	-3.9	-4.1
<u>Administrative Expenses</u>										
43 Administrative Costs	0.5	0.9	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.2
44 Costs to Administer the Mandate	0	0	0	0	0	2.0	2.0	0	0	0
45 Planning and Start-Up Grants	0.1	0.4	0.6	0.3	0	0	0	0	0	0
Total Studies, Administrative Expenses	0.6	1.3	1.6	1.3	1.0	3.0	3.1	1.1	1.1	1.2
<u>Studies, Research, &amp; Demonstrations</u>										
46 EACH/MAF/Rural Transition Demonstrations	a	0.1	0.1	0.1	a	a	a	a	a	a
Total Studies, Research, & Demonstrations	a	0.1	0.1	0.1	a	a	a	a	a	a
<b>DISCRETIONARY OUTLAY CHANGES</b>	<b>2.5</b>	<b>3.2</b>	<b>0.3</b>	<b>-1.7</b>	<b>-2.3</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-2.6</b>	<b>-2.8</b>	<b>-2.9</b>
<b>TOTAL OUTLAY CHANGES</b>	<b>0.1</b>	<b>-1.6</b>	<b>11.4</b>	<b>22.9</b>	<b>31.1</b>	<b>40.9</b>	<b>38.7</b>	<b>36.3</b>	<b>35.1</b>	<b>33.0</b>

Continued

**TABLE 1. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>RECEIPTS</b>										
47 Increase in Tobacco Tax	0.7	2.7	4.5	6.1	7.6	7.4	7.1	6.9	6.8	6.7
48 1.75% Excise Tax on Private Health Ins Premiums	0	3.5	6.1	7.1	7.7	8.4	9.1	9.9	10.8	11.7
49 Addl Medicare Part B Premiums for High-Income Individuals (\$80,000/\$100,000)	0	0	2.0	2.0	2.8	3.5	4.4	5.5	6.9	8.7
50 Increase Excise Tax on Hollow-Point Bullets										
51 Include Certain Service-Related Income in SECA/ Excl Certain Inven-Related Income from SECA										
a) General Fund Effect	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
b) OASDI Effect	0	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
52 Extend Medicare Coverage & HI Tax to All State and Local Government Employees	0	1.6	1.6	1.5	1.5	1.4	1.4	1.3	1.2	1.2
53 Impose Excise Tax with Respect to Plans Failing to Satisfy Voluntary Contribution Rules	0	a	a	a	a	a	a	a	a	a
54 Provide that Health Benefits Cannot be Provided thru a Cafeteria Plan/Flex Spend Arrangements	0	0.5	2.5	3.9	4.8	5.6	6.3	7.0	7.7	8.5
55 Extend/Increase 25% Deduction for Health Insurance Costs of Self-Employed Individuals	-0.5	-0.6	-1.2	-1.3	-1.4	-1.5	-1.6	-1.8	-2.0	-2.1
56 Limit on Prepayment of Medical Premiums										
57 Non-Profit Health Care Orgns/Taxable Orgns Providing Health Ins & Prepd Health Care Svcs										
58 Trmt of Certain Ins Companies Under Sect 833	0	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
59 Grant Tax Exempt Status to State Ins Risk Pools	a	a	0	0	0	0	0	0	0	0
60 Remove \$150 Million Bond Cap on Non-Hospital 501(c)(3) Bonds	a	a	a	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
61 Qualified Long-Term Care Benefits Treated as Medical Care; Clarify Tax Treatment of Long-Term Care Insurance and Services	0	a	-0.2	-0.3	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4
62 Tax Treatment of Accelerated Death Benefits Under Life Insurance Contracts	a	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
63 Increase in Reporting Penalties for Nonemployees	0	a	a	a	a	a	a	a	a	a

Continued

**TABLE 1. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
64 Post-Retirement Medical/Life Insurance Reserves										
65 Tax Credit for Practitioners in Underserved Areas	a	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	a	a	a
66 Increase Expensing Limit for Certain Med Equip	a	a	a	a	a	a	a	a	a	a
67 Tax Credit for Cost of Personal Assistance Svcs Required by Employed Individuals	0	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
68 Disclosure of Return Information to State Agencies										
69 Impose Premium Tax with Respect to Certain High Cost Plans	0	a	0.9	2.2	3.3	6.1	9.5	12.5	16.0	19.9
70 Limit Exclusion for Employer-Paid Health Benefits	0	0	0	0	0	0	0	0	0	0.9
71 Indirect Tax Effects of Changes in Tax Treatment of Employer & Household Health Ins Spending	0	-0.5	-0.3	-0.7	-1.3	-2.0	-2.4	-3.0	-3.3	-3.7
<b>TOTAL RECEIPT CHANGES</b>	<b>0.1</b>	<b>7.1</b>	<b>15.7</b>	<b>20.2</b>	<b>24.5</b>	<b>28.3</b>	<b>33.4</b>	<b>37.8</b>	<b>43.5</b>	<b>51.2</b>
<b>DEFICIT</b>										
<b>MANDATORY CHANGES</b>	<b>-2.5</b>	<b>-12.0</b>	<b>-4.6</b>	<b>4.5</b>	<b>8.9</b>	<b>13.0</b>	<b>5.8</b>	<b>1.2</b>	<b>-5.6</b>	<b>-15.3</b>
<b>CUMULATIVE MANDATORY TOTAL</b>	<b>-2.5</b>	<b>-14.5</b>	<b>-19.2</b>	<b>-14.7</b>	<b>-5.8</b>	<b>7.2</b>	<b>13.0</b>	<b>14.1</b>	<b>8.6</b>	<b>-6.7</b>
<b>TOTAL CHANGES</b>	<b>-0</b>	<b>-8.7</b>	<b>-4.3</b>	<b>2.7</b>	<b>6.6</b>	<b>12.6</b>	<b>5.3</b>	<b>-1.5</b>	<b>-8.4</b>	<b>-18.2</b>
<b>CUMULATIVE DEFICIT EFFECT</b>	<b>-0</b>	<b>-8.8</b>	<b>-13.1</b>	<b>-10.3</b>	<b>-3.7</b>	<b>8.9</b>	<b>14.2</b>	<b>12.7</b>	<b>4.4</b>	<b>-13.8</b>

SOURCES: Congressional Budget Office; Joint Committee on Taxation

NOTES:

The figures in this table include changes in authorizations of appropriations and in Social Security that would not be counted for pay-as-you-go scoring under the Budget Enforcement Act of 1990.

Provisions with no cost have been excluded from this table.

a. Less than \$50 million.

**TABLE 2. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>MANDATORY OUTLAYS</b>										
<b>Medicaid</b>										
1 Discontinued Coverage of Acute Care	0	0	-23.8	-35.6	-39.7	-44.4	-49.6	-55.2	-61.2	-67.6
2 State Maintenance-of-Effort Payments	0	0	-18.5	-26.5	-28.7	-31.1	-33.6	-36.3	-39.3	-42.4
3 Disproportionate Share Hospital Payments	0	0	-8.8	-13.4	-14.8	-15.6	-18.8	-20.7	-22.9	-25.2
4 Increase Asset Disregard to \$4000 for Home and Community Based Services	a	a	a	a	a	a	a	0.1	0.1	0.1
5 Offset to Medicare Prescription Drug Program	0	0	0.0	0.0	-0.7	-1.5	-1.6	-1.9	-2.1	-2.3
6 Administrative Savings	0	0	-0.3	-0.5	-0.5	-0.6	-0.7	-0.8	-0.8	-0.9
Total - Medicaid	a	a	-51.4	-76.0	-84.4	-93.2	-104.3	-114.8	-126.2	-138.3
<b>Medicare</b>										
7 Part A Reductions										
Inpatient PPS Updates	0	0	-0.3	-1.6	-3.4	-5.6	-8.0	-10.7	-13.8	-17.4
Capital Reductions	0	-0.8	-1.0	-1.2	-1.6	-2.1	-2.2	-2.4	-2.7	-2.9
Disproportionate Share Hospital Reductions	0	0	-1.7	-2.1	-2.3	-2.5	-2.8	-3.1	-3.4	-3.7
Skilled Nursing Facility Limits	0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3
Long Term Care Hospitals	a	a	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4
Medicare Dependent Hospitals	a	0.1	0.1	0.1	a	a	0	0	0	0
Sole Community Hospitals	a	a	a	a	a	a	a	a	a	a
Part A Interactions	a	a	0.1	0.2	0.4	0.6	0.7	0.9	1.1	1.3
8 Essential Access Community Hospitals										
Medical Assistance Facility Payments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Rural Primary Care Hospitals (RPCH) Pmts	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
9 Part B Reductions										
Updates for Physician Services	-0.4	-0.6	-0.6	-0.7	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1
Real GDP for Volume and Intensity	0	0.0	-0.3	-0.8	-1.6	-2.5	-3.3	-4.2	-5.3	-6.6
Eliminate Formula Driven Overpayments	-0.8	-1.0	-1.3	-1.8	-2.3	-3.2	-4.2	-5.5	-7.1	-9.1
Competitive Bid for Part B	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Competitive Bid for Clinical Lab Services	a	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-0.6
Elimination of Balance Billing	0	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Laboratory Coinsurance	-0.7	-1.1	-1.3	-1.4	-1.6	-1.8	-2.0	-2.3	-2.6	-2.9
Correct MVPS Upward Bias	0	0	0	0	-0.2	-0.6	-1.4	-2.6	-3.9	-5.5
Eye & Eye/Ear Specialty Hospitals	a	a	a	0	0	0	0	0	0	0
Nurse Prac/Phys Asst Direct Payment	0	0	0.1	0.2	0.3	0.3	0.4	0.5	0.6	0.7
High Cost Hospitals	0	0	0	-0.5	-0.8	-0.8	-0.8	-0.9	-1.0	-1.0
Durable Medical Equipment Price Reduction	a	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
Permanent Extension of 25% Part B Premium	0	0.6	0.9	1.4	0.6	-1.0	-2.8	-5.0	-7.7	-9.8

Continued

**TABLE 2. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>10 Parts A and B Reductions</b>										
Home Health Copayments (20%)	-0.7	-3.4	-4.2	-4.6	-5.0	-5.5	-5.9	-6.4	-7.0	-7.6
Medicare Secondary Payer	0	0	0	0	-1.2	-1.8	-1.9	-2.0	-2.2	-2.3
Home Health Limits	0	0	-0.3	-0.6	-0.7	-0.7	-0.8	-0.9	-1.0	-1.0
Expand Centers of Excellence	0	-0.1	-0.1	-0.1	-0.1	-0.1	a	a	0	0
Extend ESRD Secondary Payer to 24 Months	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
<b>11 Medicare Outpatient Prescription Drug Benefit</b>	0	0	0	0	6.2	14.4	15.7	17.5	19.7	21.5
Total - Medicare	-2.4	-6.6	-10.2	-14.1	-14.7	-14.3	-21.1	-28.9	-38.1	-48.4
<b>Subsidies</b>										
12 Persons between 0-200% of Poverty before Mandate	0	0	66.7	95.4	105.3	116.8	129.3	33.1	0	0
13 Persons between 0-200% of Poverty after Mandate	0	0	0	0	0	0	0	96.1	137.2	149.6
14 Pregnant Women and Kids 0-300% of Poverty										
15 Temporarily Unemployed	0	0	0.0	5.0	7.1	7.7	8.3	12.5	14.7	15.9
16 Enrollment Outreach	0	0	1.3	3.3	5.2	6.9	8.4	2.5	0	0
Total - Subsidies	0	0	68.0	103.7	117.6	131.3	146.1	144.2	151.9	165.5
<b>Other Health Programs</b>										
17 Vulnerable Hospital Payments	0	0	0	2.5	2.5	2.5	2.5	2.5	2.5	2.5
18 Veterans' Programs	0	0	-1.4	-1.4	-1.7	-1.8	-1.9	-2.0	-2.0	-2.1
19 Home and Community Based Care	0	0	0	1.8	2.9	3.6	5.0	7.9	11.4	15.4
20 Life Care	0	0	-0.6	-1.1	-1.1	-0.3	-0.3	-0.3	-0.3	-0.3
21 Academic Health Centers	0	0	4.7	7.0	8.0	9.1	10.3	11.0	11.5	12.1
22 Graduate Medical and Nursing Education	0	0	2.6	3.9	5.8	6.4	6.6	6.8	7.2	7.5
23 Medicare Transfer - Direct Medical Education	0	0	-1.6	-2.4	-2.5	-2.6	-2.8	-2.9	-3.1	-3.3
24 Medicare Transfer - Indirect Medical Education	0	0	-3.4	-4.9	-5.4	-5.9	-6.5	-7.2	-7.9	-8.7
25 Public Health Schools; Dental Schools	0	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
26 Women, Infants and Children	0	0.3	0.5	0.5	0.5	0.5	a	0	0	0
27 Administration of Enrollment Outreach	0	0	0.4	0.7	0.9	1.0	1.1	1.3	1.4	1.4
Total - Other Health Programs	0	0.3	1.3	6.7	10.0	12.6	14.1	17.2	20.8	24.6
<b>Public Health Initiative</b>										
28 Biomedical and Behavioral Research Trust Fund	0	0	0.9	1.3	1.5	1.6	1.7	2.0	2.2	2.4
29 Health Professions	0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
30 Core Public Health	0	0.1	0.3	0.3	0.4	0.4	0.3	0.2	0.1	0.1
31 Prevention	0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0

Continued

**TABLE 2. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL  
WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
32 Capacity Building and Capital	0	0.3	0.5	0.5	0.4	0.2	0.1	0.1	0.0	0.0
33 OSHA and Workforce	0	0.3	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1
34 Supplemental Services	a	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0
35 Enabling Services	0	0.1	0.2	0.3	0.3	0.3	0.2	0.2	0.1	0.1
36 National Health Service Corps (NHSC)	0	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.0
37 Mental Health & Substance Abuse (CMMH&SA)	a	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
38 School Clinics	a	0.1	0.2	0.3	0.4	0.4	0.3	0.2	0.1	0.1
39 Indian Health Service	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total - Public Health Initiatives	a	1.4	3.2	3.9	4.0	3.9	3.5	3.1	3.0	3.0
40 Social Security Benefits	0	0	0.2	0.5	0.9	0.9	0.9	0.9	0.8	0.8
<b>MANDATORY OUTLAY CHANGES</b>	<b>-2.4</b>	<b>-4.9</b>	<b>11.0</b>	<b>24.7</b>	<b>33.4</b>	<b>41.3</b>	<b>39.2</b>	<b>21.7</b>	<b>12.1</b>	<b>7.2</b>
<b>DISCRETIONARY OUTLAYS</b>										
<u>Health Programs</u>										
41 Veterans' Programs	1.2	0.6	-2.9	-4.8	-4.9	-5.1	-5.2	-5.4	-5.6	-5.8
42 Indian Health Supplementary Services	0.7	1.2	1.5	1.6	1.6	1.6	1.6	1.6	1.7	1.7
43 Misc. Public Health Service Grants	a	a	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Health Programs	1.9	1.8	-1.4	-3.1	-3.3	-3.4	-3.6	-3.7	-3.9	-4.1
<u>Administrative Expenses</u>										
44 Administrative Costs	0.5	0.9	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.2
45 Costs to Administer the Mandate	0	0	0	0	0	2.0	2.0	2.0	2.0	2.0
46 Planning and Start-Up Grants	0.1	0.4	0.6	0.3	0	0	0	0	0	0
Total Studies, Administrative Expenses	0.6	1.3	1.6	1.3	1.0	3.0	3.1	3.1	3.1	3.2
<u>Studies, Research, Demonstrations, Other</u>										
47 EACH/MAF/Rural Transition Demonstrations	a	0.1	0.1	0.1	a	a	a	a	a	a
Total Studies, Research, Demonstrations, Other	a	0.1	0.1	0.1	a	a	a	a	a	a
<b>DISCRETIONARY OUTLAY CHANGES</b>	<b>2.5</b>	<b>3.2</b>	<b>0.3</b>	<b>-1.7</b>	<b>-2.3</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-0.6</b>	<b>-0.8</b>	<b>-0.9</b>
<b>TOTAL OUTLAY CHANGES</b>	<b>0.1</b>	<b>-1.6</b>	<b>11.4</b>	<b>22.9</b>	<b>31.1</b>	<b>40.9</b>	<b>38.7</b>	<b>21.1</b>	<b>11.3</b>	<b>6.3</b>

Continued

**TABLE 2. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>RECEIPTS</b>										
48 Increase in Tobacco Tax	0.7	2.7	4.5	6.1	7.6	7.4	7.1	6.9	6.8	6.7
49 1.75% Excise Tax on Private Health Ins Premiums	0	3.5	6.1	7.1	7.7	8.4	9.1	10.4	11.5	12.4
50 Add Medicare Part B Premiums for High-Income Individuals (\$80,000/\$100,000)	0	0	2.0	2.0	2.8	3.5	4.4	5.5	6.9	8.7
51 Increase Excise Tax on Hollow-Point Bullets	----- Negligible Revenue Loss -----									
52 Include Certain Service-Related Income in SECA/ Excl Certain Inven-Related Income from SECA										
a) General Fund Effect	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
b) OASDI Effect	0	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
53 Extend Medicare Coverage & HI Tax to All State and Local Government Employees	0	1.6	1.6	1.5	1.5	1.4	1.4	1.3	1.2	1.2
54 Impose Excise Tax with Respect to Plans Failing to Satisfy Voluntary Contribution Rules	0	a	a	a	a	a	a	a	a	a
55 Provide that Health Benefits Cannot be Provided thru a Cafeteria Plan/Flex Spend Arrangements	0	0.5	2.5	3.9	4.8	5.6	6.3	8.2	9.5	10.5
56 Extend/Increase 25% Deduction for Health Insurance Costs of Self-Employed Individuals	-0.5	-0.6	-1.2	-1.3	-1.4	-1.5	-1.6	-1.8	-2.0	-2.0
57 Limit on Prepayment of Medical Premiums	----- Negligible Revenue Gain -----									
58 Non-Profit Health Care Orgns/Taxable Orgns Providing Health Ins & Prepd Health Care Svcs	----- Negligible Revenue Effect -----									
59 Trmt of Certain Ins Companies Under Sect 833	0	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
60 Grant Tax Exempt Status to State Ins Risk Pools	a	a	0	0	0	0	0	0	0	0
61 Remove \$150 Million Bond Cap on Non-Hospital 501(c)(3) Bonds	a	a	a	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
62 Qualified Long-Term Care Benefits Treated as Medical Care; Clarify Tax Treatment of Long-Term Care Insurance and Services	0	a	-0.2	-0.3	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4
63 Tax Treatment of Accelerated Death Benefits Under Life Insurance Contracts	a	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
64 Increase in Reporting Penalties for Nonemployees	0	a	a	a	a	a	a	a	a	a

Continued



**TABLE 2. PRELIMINARY ESTIMATES OF THE FEDERAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
65 Post-Retirement Medical/Life Insurance Reserves	----- Negligible Revenue Effect -----									
66 Tax Credit for Practitioners in Underserved Areas	a	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	a	a	a
67 Increase Expensing Limit for Certain Med Equip	a	a	a	a	a	a	a	a	a	a
68 Tax Credit for Cost of Personal Assistance Svcs Required by Employed Individuals	0	a	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
69 Disclosure of Return Information to State Agencies	----- No Revenue Effect -----									
70 Impose Premium Tax with Respect to Certain High Cost Plans	0	a	0.9	2.2	3.3	6.1	9.5	10.2	11.2	14.7
71 Limit Exclusion for Employer-Paid Health Benefits	0	0	0	0	0	0	0	0	0	0.9
72 Indirect Tax Effects of Changes in Tax Treatment of Employer & Household Health Ins Spending	0	-0.3	-0.3	-0.7	-1.4	-2.1	-2.6	-11.1	-15.9	-19.0
<b>TOTAL RECEIPT CHANGES</b>	<b>0.2</b>	<b>7.3</b>	<b>15.7</b>	<b>20.2</b>	<b>24.4</b>	<b>28.3</b>	<b>33.2</b>	<b>29.1</b>	<b>28.6</b>	<b>33.5</b>
<b>DEFICIT</b>										
<b>MANDATORY CHANGES</b>	<b>-2.6</b>	<b>-12.2</b>	<b>-4.7</b>	<b>4.5</b>	<b>9.0</b>	<b>13.0</b>	<b>6.0</b>	<b>-7.4</b>	<b>-16.5</b>	<b>-26.3</b>
<b>CUMULATIVE MANDATORY TOTAL</b>	<b>-2.6</b>	<b>-14.8</b>	<b>-19.5</b>	<b>-15.0</b>	<b>-6.0</b>	<b>7.0</b>	<b>13.0</b>	<b>5.6</b>	<b>-10.9</b>	<b>-37.3</b>
<b>TOTAL CHANGES</b>	<b>-0.1</b>	<b>-8.9</b>	<b>-4.3</b>	<b>2.7</b>	<b>6.7</b>	<b>12.6</b>	<b>5.5</b>	<b>-8.0</b>	<b>-17.3</b>	<b>-27.2</b>
<b>CUMULATIVE DEFICIT EFFECT</b>	<b>-0.1</b>	<b>-9.1</b>	<b>-13.4</b>	<b>-10.6</b>	<b>-3.9</b>	<b>8.7</b>	<b>14.2</b>	<b>6.2</b>	<b>-11.1</b>	<b>-38.3</b>

SOURCES: Congressional Budget Office; Joint Committee on Taxation

NOTES:

The budgetary treatment of mandatory premium payments is under review.

The figures in this table include changes in authorizations of appropriations and in Social Security that would not be counted for pay-as-you-go scoring under the Budget Enforcement Act of 1990.

Provisions with no cost have been excluded from this table.

a. Less than \$50 million.

**TABLE 3. PRELIMINARY ESTIMATES OF THE STATE & LOCAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITHOUT MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>OUTLAYS</b>										
<u>Medicaid</u>										
1 Discontinued Coverage of Acute Care	0	0	-17.9	-26.7	-29.8	-33.3	-37.2	-41.4	-45.9	-50.7
2 State Maintenance-of-Effort Payments	0	0	18.5	26.5	28.7	31.1	33.6	36.3	39.3	42.4
3 Disproportionate Share and Vulnerable Hospital Payments a/	0	0	1.1	-0.8	-0.6	-0.5	-0.1	0.2	0.5	0.8
4 Increase Asset Disregard to \$4000 for Home and Community Based Services	a	a	a	a	a	a	a	a	a	a
5 Offset to Medicare Prescription Drug Program	0	0	0	0	-0.5	-1.1	-1.2	-1.4	-1.6	-1.7
6 Administrative Savings	0	0	-0.2	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.7
Total - Medicaid	a	a	1.6	-1.4	-2.6	-4.3	-5.4	-6.9	-8.3	-9.9
<u>Administrative Expenses</u>										
7 Expenses Associated with Subsidies	0	0	3.6	5.1	5.5	6.0	6.5	7.1	7.7	8.3
8 General Administrative and Start Up Costs	0	0	1.0	1.1	1.1	1.2	1.3	1.4	1.5	1.6
9 Automobile Insurance Coordination	0	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total - Administrative Expenses	0	0.3	4.7	6.3	6.7	7.3	7.9	8.6	9.3	10.0
<u>Public Health Initiatives</u>										
10 School Health Clinics	0	0.1	0.1	0.2	0.3	0.5	0.5	0.5	0.3	0.2
<b>TOTAL OUTLAY CHANGES</b>	<b>a</b>	<b>0.3</b>	<b>6.4</b>	<b>5.1</b>	<b>4.4</b>	<b>3.5</b>	<b>3.1</b>	<b>2.2</b>	<b>1.3</b>	<b>0.3</b>
<b>RECEIPTS</b>										
11 Revenue Collected for Subsidy Administration	0	0	3.6	5.1	5.5	6.0	6.5	7.1	7.7	8.3
<b>Total State Changes</b>	<b>a</b>	<b>0.3</b>	<b>2.8</b>	<b>-0.0</b>	<b>-1.1</b>	<b>-2.5</b>	<b>-3.4</b>	<b>-4.9</b>	<b>-6.4</b>	<b>-8.0</b>

SOURCE: Congressional Budget Office.

a. The estimate assumes that states will continue to provide some assistance to hospitals serving disproportionately large numbers of uninsured or underinsured people.

**TABLE 4. PRELIMINARY ESTIMATES OF THE STATE & LOCAL BUDGETARY EFFECTS OF SENATOR MITCHELL'S PROPOSAL WITH MANDATE IN EFFECT**

(By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>OUTLAYS</b>										
<u>Medicaid</u>										
1 Discontinued Coverage of Acute Care	0	0	-17.9	-26.7	-29.8	-33.3	-37.2	-41.4	-45.9	-50.7
2 State Maintenance-of-Effort Payments	0	0	18.5	26.5	28.7	31.1	33.6	36.3	39.3	42.4
3 Disproportionate Share and Vulnerable Hospital Payments <sup>a/</sup>	0	0	1.1	-0.8	-0.6	-0.5	-0.1	-5.0	-5.2	-5.5
4 Increase Asset Disregard to \$4000 for Home and Community Based Services	a	a	a	a	a	a	a	a	a	a
5 Offset to Medicare Prescription Drug Program	0	0	0	0	-0.5	-1.1	-1.2	-1.4	-1.6	-1.7
6 Administrative Savings	0	0	-0.2	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.7
Total - Medicaid	a	a	1.6	-1.4	-2.6	-4.3	-5.4	-12.1	-14.0	-16.2
<u>Administrative Expenses</u>										
7 Expenses Associated with Subsidies	0	0	3.6	5.1	5.5	6.0	6.5	7.5	8.2	8.9
8 General Administrative and Start Up Costs	0	0	1.0	1.1	1.1	1.2	1.3	1.4	1.5	1.6
9 Automobile Insurance Coordination	0	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total - Administrative Expenses	0	0.3	4.7	6.3	6.7	7.3	7.9	9.0	9.8	10.6
<u>Public Health Initiatives</u>										
10 School Health Clinics	0	0.1	0.1	0.2	0.3	0.5	0.5	0.5	0.3	0.2
<b>TOTAL OUTLAY CHANGES</b>	<b>a</b>	<b>0.3</b>	<b>6.4</b>	<b>5.1</b>	<b>4.4</b>	<b>3.5</b>	<b>3.1</b>	<b>-2.6</b>	<b>-3.9</b>	<b>-5.4</b>
<b>RECEIPTS</b>										
11 Revenue Collected for Subsidy Administration	0	0	3.6	5.1	5.5	6.0	6.5	7.5	8.2	8.9
<b>Total State Changes</b>	<b>a</b>	<b>0.3</b>	<b>2.8</b>	<b>-0.0</b>	<b>-1.1</b>	<b>-2.5</b>	<b>-3.4</b>	<b>-10.1</b>	<b>-12.1</b>	<b>-14.3</b>

SOURCE: Congressional Budget Office.

a. The estimate assumes that states will continue to provide some assistance to hospitals serving disproportionately large numbers of uninsured or underinsured people.

**Table 5. Health Insurance Coverage  
(By calendar year, in millions of people)**

	1997	1998	1999	2000	2001	2002	2003	2004
<b>Baseline</b>								
Insured	224	226	228	229	230	232	233	234
Uninsured	<u>40</u>	<u>40</u>	<u>40</u>	<u>41</u>	<u>42</u>	<u>43</u>	<u>43</u>	<u>44</u>
Total	264	266	268	270	272	274	276	278
Uninsured as Percentage of Total	15	15	15	15	15	16	16	16
<b>Senator Mitchell's Proposal—Without Mandate in Effect</b>								
Insured <sup>a</sup>	250	253	255	257	259	261	262	264
Uninsured	<u>13</u>	<u>13</u>	<u>13</u>	<u>14</u>	<u>14</u>	<u>14</u>	<u>14</u>	<u>14</u>
Total	264	266	268	270	272	274	276	278
Uninsured as Percentage of Total	5	5	5	5	5	5	5	5
<b>Senator Mitchell's Proposal—With Mandate in Effect</b>								
Insured	250	253	255	257	259	274	276	278
Uninsured	<u>13</u>	<u>13</u>	<u>13</u>	<u>14</u>	<u>14</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	264	266	268	270	272	274	276	278
Uninsured as Percentage of Total	5	5	5	5	5	0	0	0

SOURCE: Congressional Budget Office.

a. Includes people eligible for coverage under the enrollment outreach provisions of the proposal.

**Table 6. Projections of National Health Expenditures  
(By calendar year, in billions of dollars)**

	1997	1998	1999	2000	2001	2002	2003	2004
Baseline	1,263	1,372	1,488	1,613	1,748	1,894	2,052	2,220
<b>Senator Mitchell's Proposal—Without Mandate in Effect</b>								
Proposal	1,301	1,401	1,519	1,647	1,779	1,923	2,079	2,246
Change from Baseline	38	29	31	33	31	29	27	25
<b>Senator Mitchell's Proposal—With Mandate in Effect</b>								
Proposal	1,301	1,401	1,519	1,647	1,779	1,943	2,093	2,254
Change from Baseline	38	29	31	33	31	48	41	34

SOURCE: Congressional Budget Office.

**DRAFT (7/20/94 #2)**

**PURPOSE:** Attached is a proposal to ensure that the goal of universal coverage is met in the event that Congress fails to act on Commission recommendations under the process set forth in the Senate Finance Committee bill. The proposal would require the states to achieve universal coverage and would give them flexibility and resources to do so.

**CONTEXT:** The Finance Committee bill sets up a national commission that would report to Congress every two years on the status of the uninsured and suggest ways to expand coverage.

If less than 95% of the U.S. population is insured in 2002, the Commission would send recommendations to Congress on how those parts of the country that have not achieved 95% coverage could do so. These recommendations would be considered by Congress under fast-track procedures that would allow for relevant amendments but which would ultimately require that Congress take a vote. The following proposal would apply only if, at the end of fast-track procedures, Congress failed to pass legislation to reach universal coverage.

**SUMMARY OF PROPOSAL:** This proposal would set up a default process in the event that Congress fails to approve legislation (based on Commission recommendations) in the year 2002. States with less than 95% coverage would be required to submit a plan to the Department of Health and Human Services that would demonstrate progress toward universal coverage.

The proposal was written with the following guiding principles in mind: (1) states should be given a reasonable amount of flexibility and resources so that they can act to expand coverage within their borders, (2) states should not be presented with an unfunded federal mandate, (3) the federal government should not promise the states more resources than can realistically be provided, and (4) any new commitment of federal resources must be fully financed.

The proposal would establish:

- o **1995 TO 2002:** incentives and flexibility for states to encourage and enable states to act aggressively to reach 95% coverage;
- o **BEGINNING IN 2002:** additional authorities that states can use to reach 95% coverage (should Congress fail to enact legislation based on Commission recommendations); and
- o **CONSEQUENCES OF STATE INACTION AFTER 2002:** limited federal interventions in states that fail to make substantial progress within a reasonable period of time after the year 2002 (if Congress has failed to act).

**DRAFT**

Add new section II (E) to Senate Finance Committee mark:

**E. DEFAULT STRATEGY FOR ASSURING UNIVERSAL COVERAGE**

In the event that Congress fails to act on the recommendations of the Commission as described in section II (D), any state in which fewer than 95% of residents are insured must submit a plan of action to the Secretary of Health and Human Services for achieving 95% coverage by a date certain. Flexibility will be permitted for states that have extremely high rates of uninsured.

Such plans shall address all relevant parties, including State and local governments, employers, employees, unemployed and low income individuals, beneficiaries of public programs, etc.

**1995 TO 2002:** The following provisions are designed to give states the resources and flexibility they need in order to reach the goal of universal coverage before the year 2002:

- o Allow limited flexibility under ERISA: under a waiver process, states will be given limited authority to impose requirements on ERISA plans if they can demonstrate that these requirements would significantly increase coverage. Specifically, states could apply for permission to subject ERISA plans to broad-based premium taxes (up to a capped amount of 1% or 2%) that are used to expand coverage.
- o Provide funding for state outreach efforts to low-income and other populations at risk of remaining uninsured. (Funds are intended for administrative and technical support.)
- o Allow states to impose additional "risk adjustments" among health plans based on factors other than health status (such as geography) that are designed to encourage health plans to cover populations that are at risk of remaining uninsured.
- o Provide funding and additional flexibility to states to encourage the development of provider networks in rural and urban underserved areas. (Funds are intended for administrative and technical support.)
- o Provide funding for state planning and reporting requirements.

**DRAFT**

**BEGINNING IN 2002:** Those states that are required to submit action plans to the Secretary of Health and Human Services for approval that may include application for the following additional authorities:

- o Adjustments to low-income subsidy structure. This could be done: (1) in a revenue neutral way that allows states to create different eligibility rules for low-income subsidies, or (2) in a manner that allows states to receive as a block grant additional, untapped subsidies for eligible state residents who remain uninsured. (It may be necessary to cast option #2 as a capped amount for the states to address concerns about potential costs. A rough estimate of the cost of allowing states to tap every potential dollar of subsidies would probably be in the range of \$100-\$200 billion in additional costs over five years.)
- o Additional flexibility regarding state regulation of ERISA plans under an HHS/DOL waiver process. Options for states include: (1) allowing state-level employer mandates, (2) permitting states to impose all-payer rate systems that include ERISA plans, or (3) easing restrictions on states' ability to establish single-payer systems. (Some provisions to address the concerns of large, multi-state employers must be considered.)
- o Adjust threshold for self-insuring and participation in community-rated pools.
- o Structure of purchasing cooperatives: states would be given flexibility to restructure purchasing cooperatives (for example, establish coops as state-based and/or mandatory entities) and limit or increase the number of coops in an area.

**CONSEQUENCES OF STATE INACTION AFTER 2002:** The commission would continue to report biennially on the status of health insurance coverage. Failure of states to plan for or demonstrate substantial and reasonable progress toward 95% coverage (or to maintain that level of coverage) would result in one or more of the following limited sanctions, under rules established by HHS:

- o Loss of federal payments for costs of outreach programs to populations at risk of remaining uninsured. Outreach functions would then be assumed by HHS.
- o Loss of state flexibility to establish special risk adjustments among health plans designed to encourage coverage of populations that remain uninsured. This function would then be assumed by HHS.
- o Loss of funds and state flexibility to establish special provisions for the development of provider networks in rural and urban underserved areas. This function would then be assumed by HHS.
- o Possible assumption of additional authorities by HHS.



CC: ALL OPC Staff


Panetta File

AUG 19 REC'D

THE WHITE HOUSE  
WASHINGTON

August 17, 1994

## MEMORANDUM FOR THE WHITE HOUSE STAFF

FROM: LEON E. PANETTA 

SUBJECT: WHITE HOUSE PROCEDURES

The following are new policies regarding White House procedures. Some have been announced at recent senior staff meetings. I have discussed these policies with the President, and he concurs in them.

Personnel and Pay: To ensure that White House personnel and pay policies are fair and appropriate all personnel and pay changes related to the White House staff must be approved by the Chief of Staff.

Travel: Likewise, to ensure the most efficient and effective use of resources, all official travel by staff must be approved by the Chief of Staff.

Briefings for the President: Briefings for the President need to be thorough and concise, and those involving decisions to be made by him should provide a clear set of well-defined options. To ensure that this is the case, briefing materials are to be cleared with the Chief of Staff before they are presented to the President. In addition, time permitting, an oral summary of the planned briefing should be given to the Chief of Staff before the meeting with the President.

Decision Memoranda for the President: Working through the Staff Secretary, all Presidential decision memoranda must be approved by the Chief of Staff.

Weekly Updates by Assistants to the President: Assistants to the President should provide a brief summary of their weekly activities in a memo to the Chief of Staff. For those who currently provide such a summary for the President, a copy to the Chief of Staff is sufficient. These memos are due by the close of business each Friday.

Speaking to the Press: Members of the staff are encouraged to contact the Director of Communications to alert him to stories reporters are working on to ensure that the Administration point of view is fully represented. Senior staff members should remind their staff that no one should discuss issues with members of the press unless specifically authorized by the Communications Director.

I greatly appreciate your cooperation regarding these matters. I also appreciate the energy, the professionalism, and the commitment of the staff, and continue to look forward to working with you in serving the President.