CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 12, 2001

H.R. 179
Keep Our Promise to America's Military Retirees Act

As introduced on January 3, 2001, with subsequent changes to section 3

SUMMARY

H.R. 179 would increase health insurance benefits for certain retirees from the uniformed services and their survivors. The uniformed services include all branches of the military, the Coast Guard, and uniformed members of the Public Health Service and the National Oceanographic and Atmospheric Administration. Retirees who entered the uniformed services before June 7, 1956, and their surviving spouses would be able to enroll in the Federal Employees Health Benefits (FEHB) program or continue to use their military health insurance (Tricare), but could not use both programs. H.R. 179, as introduced, would allow retirees to use both forms of health insurance, but language provided by Congressman Shows' staff would prohibit such dual use. This estimate assumes that H.R. 179 would be amended to prohibit dual use. Those enrolling in FEHB would pay no out-of-pocket premiums. Each branch of the uniformed services would pay the full premium for all beneficiaries attached to its service.

Retirees who entered the uniformed services after June 7, 1956, and their survivors would also be eligible for the increased insurance coverage. They could either enroll in FEHB or continue to use Tricare. For those choosing FEHB, the respective branch of the uniformed services would pay only the normal government contribution (roughly 70 percent) and the retiree or survivor would be responsible for the remainder. All retirees and survivors, regardless of age, could continue to receive care at a military treatment facility (MTF) on a space-available basis.

The bill would result in additional costs for spending on FEHB premiums and on Medicare, but there would be a net decrease in the costs of Tricare. Because the bill would affect direct spending, pay-as-you-go procedures would apply. Allowing for a transition period lasting two years, CBO estimates that the bill would raise direct spending by more than $15 billion over the 2002-2006 period and by about $34 billion through 2011. Including the cost of increased accrual payments, H.R. 179 would save about $1 billion in discretionary spending over the 2002-2006 period, assuming appropriations are reduced by the estimated amounts.

H.R. 179 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 179 is shown in Table 1. The costs of this legislation fall within budget functions 050 (national defense), 300 (natural resources and environment), 400 (transportation), 550 (health), and 570 (Medicare).

TABLE 1. ESTIMATED COSTS OF H.R. 179

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	2,466	2,579	3,384	3,449	3,507
Estimated Outlays	0	2,466	2,579	3,384	3,449	3,507
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	0	-1,933	51	199	136	67
Estimated Outlays	0	-1,786	79	214	144	73

BASIS OF ESTIMATE

Under current law, retirees of the uniformed services under the age of 65 are eligible either to enroll in Tricare Prime or to use Tricare's insurance programs (Standard or Extra). Those who use Tricare Standard or Extra may also seek care at an MTF on a space-available basis. Beginning on October 1, 2001, retirees age 65 and over will be able to use Tricare insurance, which will function as a second-payer to Medicare. The same eligibility rules apply to survivors, who are primarily widows and widowers. Through the end of fiscal year 2002, all the costs for military health care will be paid for out of annual appropriations. Beginning in fiscal year 2003, health care costs for the military's Medicare-eligible beneficiaries will be paid out of a trust fund that will be financed by accrual payments from both the Department of Defense (DoD) and the Treasury, as determined by an independent board of actuaries. Currently, all health care costs for retirees and survivors of the other uniformed services are considered direct spending regardless of age.

H.R. 179 would allow greater access to health insurance by allowing retirees and surviving spouses the choice of enrolling in FEHB or continuing their current Tricare coverage. For those enrolled in FEHB who entered the uniformed services before June 7, 1956, the sponsoring branch of the uniformed services would pay the entire FEHB premium. The uniformed services would pay only the normal FEHB employer contribution for retirees who entered after that date. Those beneficiaries who do not enroll in FEHB would still be eligible to use their Tricare insurance. All beneficiaries could continue to use MTFs for health care on a space-available basis, regardless of their choice of insurance.

The bill would result in additional costs for spending on FEHB premiums and on Medicare, but there would be a net decrease in the costs of Tricare. The first step in calculating those costs is estimating the number of eligible beneficiaries.

Eligible Population

H.R. 179 differentiates between two groups of beneficiaries. The first group consists of retirees who entered uniformed service before June 7, 1956, and their surviving spouses. This group would be entitled to FEHB insurance, in lieu of using Tricare, without making any out-of-pocket premium payments. Using data from DoD, CBO estimates that in 2001 more than one million households would meet the criteria for having their premiums paid in full. Reductions due to mortality would reduce this population to about 700,000 by 2011. According to the *1998 Health Care Survey of DoD Beneficiaries*, 10 percent of this population is already enrolled in FEHB. Those individuals would also receive their FEHB insurance for free, but only a portion of their premiums would be new costs to the government.

The second group consists of retirees who entered military service after June 7, 1956, and their surviving spouses. Those individuals could also enroll in FEHB in lieu of using Tricare. Any member of this group choosing to enroll in FEHB would have to make the same out-of-pocket premium payments that current FEHB enrollees make.

CBO expects that the number of beneficiaries age 65 and over who did not enter the uniformed services prior to June 7, 1956, would initially be low but would increase to more than 450,000 households by 2011. That number does not reflect those already eligible for FEHB because of civil service employment after their retirement from the uniformed services. (Most current retirees age 65 and over entered uniformed service before the above cutoff date.) The estimated number of households of retirees and survivors under 65 would be relatively constant over the 10-year period. In 2002, an estimated 950,000 households would have a retiree or survivor under age 65 and would be eligible for FEHB under the bill. (That figure does not count those already eligible based on current civil service employment.)

Direct Spending

H.R. 179 would increase costs for FEHB and Medicare but decrease costs for Tricare and the other uniformed services. Those costs and savings would be direct spending and are shown in Table 2.

Costs of Premium Payments Under FEHB. Payments by DoD and the other uniformed services for FEHB premiums for beneficiaries under H.R. 179 would cost almost $29 billion over the 2002-2006 period and more than $68 billion over the 10-year period ending in 2011. Premiums for retirees who would receive free insurance (those who entered service prior to June 7, 1956) would constitute about 75 percent of these costs. Even in 2011, after a decline in this population from mortality, the cost of providing free premiums would still make up more than half of the added FEHB costs—$4.4 billion out of $8.4 billion. Because the expected increase in FEHB premiums is greater than the mortality rate, total costs would continue to increase over the 2002-2011 period.

The above costs would be split between DoD and the other uniformed services, with DoD bearing the bulk of the burden. DoD's FEHB payments would cost more than $28 billion over the 2002-2006 period and about $67 billion over the 2002-2011 period. FEHB premium payments for the other uniformed services would cost about $450 million over the 2002-2006 period and more than $1 billion over the 10-year period ending in 2011.

Participation Rates. CBO estimates that by 2003 almost 750,000 (70 percent) of the retirees and survivors who would be eligible for free FEHB coverage would enroll in that program. By 2011, the estimated number of participants would still exceed 500,000. Because they would pay no premiums, the overwhelming majority of these people would probably choose to enroll in the most generous and, consequently, most expensive plans like the Blue Cross/Blue Shield (BCBS) High option. Under the amended provisions of H.R. 179, such retirees would have to choose between FEHB and Tricare. Because FEHB is often perceived as offering wider coverage and better customer service, CBO expects that most retirees and survivors eligible for free FEHB would choose it as their primary insurance.

In contrast, CBO expects that a lower percentage of retirees and survivors age 65 and over who entered service after June 7, 1956 would choose to enroll in FEHB. Using data from the *1998 Health Care Survey of DoD Beneficiaries* and the *Current Population Survey (*March 1997), CBO estimates that roughly 50 percent of military retirees who are working in a second career for the federal government currently choose to pay an out-of-pocket premium to enroll in FEHB. They do this despite being eligible for Tricare Standard or Extra, which has no such premium. CBO uses the same estimated participation rate (50 percent) for retirees who would pay part of the premium under H.R. 179 because they would face the same choice as current retirees employed by the federal government as civilians.

TABLE 2. ESTIMATED DIRECT SPENDING UNDER H.R. 179

	Outlays in Millions of Dollars, By Fiscal Year					
	2001	2002	2003	2004	2005	2006
DIRECT SPENDING						
Health Care Spending for Medicare-Eligible Beneficiaries of the Uniformed Services						
Spending Under Current Law [a,b]	0	0	5,547	6,024	6,516	7,003
Proposed Changes						
FEHB Premiums						
Department of Defense	0	1,771	4,242	4,963	5,094	5,208
Other Uniformed Services	0	25	61	73	76	79
Tricare for Life Savings						
Department of Defense [c]	0	0	-3,380	-3,653	-3,857	-4,052
Other Uniformed Services	0	-24	-49	-54	-58	-62
Subtotal - Proposed Changes	0	1,772	874	1,329	1,255	1,173
Spending Under H.R. 179	0	1,772	6,421	7,353	7,771	8,176
Health Care Spending for Beneficiaries of the Uniformed Services Under Age 65						
Spending Under Current Law	0	0	0	0	0	0
Proposed Changes						
FEHB Premiums						
Department of Defense	0	551	1,349	1,620	1,722	1,832
Other Uniformed Services	0	11	27	33	35	38
Tricare Savings						
Other Uniformed Services	0	-2	-6	-8	-9	-10
Subtotal - Proposed Changes	0	560	1,370	1,645	1,748	1,860
Spending Under H.R. 179	0	560	1,370	1,645	1,748	1,860
Cost Increases in Medicare						
Spending Under Current Law	237,000	251,400	268,500	288,000	313,700	331,700
Proposed Changes	0	134	335	410	446	474
Spending Under H.R. 179	237,000	251,534	268,835	288,410	314,146	332,174
Total Proposed Changes						
Estimated Outlays[b]	0	2,466	2,579	3,384	3,449	3,507

a. Spending under current law reflects baseline amounts for DoD and Medicare and does not include the other uniformed services.
b. Estimated changes in budget authority would equal changes in outlays.
c. Savings in 2002 would be discretionary because the trust fund does not begin operation until 2003.

CBO estimates the participation rate for retirees under age 65 would be even lower—about 34 percent of those not already eligible for FEHB. According to data from the *1997 Health Care Survey of DoD Beneficiaries*, almost 25 percent of retirees under age 65 have employer-sponsored insurance that requires no out-of-pocket premiums. Because such individuals are unlikely to pay to enroll in FEHB, CBO estimates a lower participation rate in FEHB for this group of retirees and survivors.

Currently, DoD and the Office of Personnel Management (OPM) are conducting a pilot program that allows military retirees age 65 and over to enroll in FEHB. That pilot program is scheduled to end on December 31, 2002. Although enrollment rates have been low, CBO does not believe those rates are representative of what would happen if H.R. 179 became law. CBO believes that the temporary nature of the program is the primary reason for the low participation rates. According to data from the *1997 Health Care Survey of DoD Beneficiaries*, about 55 percent of retirees and survivors currently purchase some form of medigap insurance. Those who enroll in the FEHB demonstration program may not be aware that they can reacquire their medigap coverage at the end of 2002, which would explain why so many are reluctant to enroll in the plan.

Premium Costs to the Federal Government. CBO estimates the added per capita FEHB costs by using the premium rates published by OPM for 2001. BCBS High option premiums are $4,075 for an individual policy and $8,714 for a family policy. The BCBS Standard option premiums are $3,142 and $7,195, while Kaiser Permanente's Mid-Atlantic premiums are $2,750 and $6,792. The government pays a fixed amount equal to 72 percent of the average premium (weighted by participation in the various plans), but for expensive plans the actual share is considerably less than 72 percent.

The government's costs would increase significantly under H.R. 179 because a large group of beneficiaries would receive health insurance and pay no premiums. In 2002, CBO estimates that the average cost to the federal government for retirees and survivors not paying premiums would be $4,191 for individuals and $9,034 for families. In contrast, if the enrollees were to pay their share of the premiums the costs to the federal government would be $2,341 for individuals and $5,385 for families. According to data from DoD, 66 percent of retirees age 65 and over have at least one dependent and would likely choose the self-and-family policy.

CBO also estimates that about 80 percent of enrollees who would not receive free insurance would choose a fee-for-service plan like BCBS, and about 20 percent would opt for a managed care plan. Those percentages correspond to actual enrollment data for Civil Service retirees who are currently enrolled in FEHB.

H.R. 179 would place all new beneficiaries in a separate risk pool to insulate current FEHB enrollees from any potential increase in premiums. As a group, new beneficiaries under H.R. 179 would be considerably older than the corresponding pool of federal civilian enrollees. Based on self-reported evaluations, the health status of the potential beneficiaries is somewhat poorer than for current FEHB enrollees. However, CBO believes that these differences will have a small effect on premiums for new beneficiaries.

About 55 percent of estimated enrollees are over age 64 and eligible for Medicare; about 90 percent enroll in Medicare Part B. When retirees are covered jointly by Medicare and FEHB, Medicare pays first and FEHB acts as a wrap-around policy, which significantly lowers the costs to FEHB. For example, under current law annuitants who are covered by Medicare and current employees cost the federal government about the same per capita amount for FEHB. In absolute terms, annuitants cost a lot more, but since Medicare is first payer the actuarial costs to FEHB are about equal for both groups. This group of potential beneficiaries is somewhat more likely to require health care services than current FEHB enrollees, but since Medicare is first payer the effect on premiums is probably negligible.

Beneficiaries under 65 would have a slightly larger impact on premiums. In contrast to the FEHB population as a whole, the new pool would have a higher concentration of people between 45 and 65 (where averge medical costs are higher). Because those already working for the federal government and those with free employer-sponsored insurance are not included in the new pool, a relatively higher percentage of new beneficiaries choosing FEHB would be in poor health. But, new beneficiaries would bear any increase in premiums, because the government's contribution is limited to the amount paid in the regular FEHB pool.

Savings in Tricare for Life. In 2000, the Congress authorized the creation of a trust fund, often called Tricare for Life, to pay the health care costs of military beneficiaries age 65 and over. This program will act as a second-payer to Medicare for all Medicare-covered services and as a first payer for all non-Medicare-covered services that Tricare covers, primarily prescription drugs. The prescription drug benefit took effect on April 1, 2001, and the second-payer provisions will take effect on October 1, 2001. At the start of fiscal year 2003, all of the costs for beneficiaries age 65 and over will be paid out of the newly established trust fund. Under H.R. 179 many users of the military health care system would enroll in FEHB resulting in savings to the trust fund from decreased use of Tricare and services provided at military treatment facilities. In addition, FEHB plans would reimburse MTFs for services provided to beneficiaries enrolled in those plans, as stipulated by H.R. 179.

The savings for DoD would be discretionary in 2002, and mandatory thereafter. CBO estimates that DoD would save almost $15 billion over the 2003-2006 period and more than $38 billion over the 2003-2011 period. In addition, CBO estimates that the other uniformed

services would save about $250 million over the 2002-2006 period and about $600 million over the 10-year period ending in 2011. (All savings in the uniformed services would be direct spending.)

Tricare. Under H.R. 179, CBO estimates that in 2003 about 850,000 estimated Tricare users would opt to enroll in FEHB rather than use Tricare at a savings of about$3,200 per person. CBO expects the number of Tricare users age 65 and over enrolling in FEHB to decline to about 750,000 by 2011, as the relative number of estimated Tricare users eligible for free FEHB declines over the same period. CBO estimates that the decline in Tricare users would save almost $12 billion over the 2003-2006 period and more than $29 billion over the 2003-2011 period. (The savings for 2002 would be $1.3 billion, but they would be discretionary because the trust fund does not start operations until 2003.)

MTFs. CBO also estimates that about 60,000 current MTF users would stop using the MTFs because FEHB insurance would lower the cost of obtaining health care at a savings of about $6,400 per person. This number represents about 20 percent of MTF users age 65 and over and CBO expects it to remain fairly constant over the ten-year period. CBO estimates that providing fewer services at MTFs would save about $2 billion over the 2003-2006 period and about $5 billion over the 2003-2011 period. (The savings in 2002 would be discretionary and about $150 million.)

Reimbursements. H.R. 179, with the planned changes to section 3, would require that FEHB plans reimburse DoD for care received at an MTF if the beneficiary is enrolled in FEHB. Although CBO estimates that some individuals will stop using MTFs when they get FEHB insurance, most will not. DoD currently has the authority to bill third-party insurance for services rendered at MTFs. DOD collects only about 40 percent of what the MTFs bill because MTFs are not able to provide the detailed bills required by insurance companies. CBO estimates that if DoD collects 40 percent of eligible charges from FEHB plans that it would save about $2 billion over the 2003-2006 period and about $5 billion over the 2003-2011 period. (In 2002, the savings would be discretionary and $186 million.)

Tricare Savings for Other Uniformed Services Retirees Under Age 65. CBO estimates that health care direct spending by the other uniformed services for beneficiaries under age 65 would be reduced by $35 million over the 2002-2006 period and by $95 million over the 10-year period ending in 2011. Beneficiaries under age 65 who enroll in FEHB, would not be able to use Tricare and would be less likely to use MTFs resulting in decreased costs.

Cost Increases in Medicare. Giving military retirees the opportunity to enroll in FEHB plans would also increase costs to the Medicare program. CBO estimates that H.R. 179 would increase Medicare costs by nearly $2 billion over the 2002-2006 period and by about $5 billion over the 2002-2011 period. This increase would stem from increased use of health

care by those retirees who would seek care from private providers instead of an MTF once they have a generous health insurance plan.

Many retirees seek health care at MTFs, but there is a significant amount of variation in the degree to which those people use MTFs. With the provision of better insurance fewer people would use MTFs as many would turn instead to the private sector. This shift in the provision of care would increase costs to Medicare, which is the first payer under most health insurance policies. CBO estimates that the equivalent of about 60,000 beneficiaries age 65 and over would begin using private health care providers rather than the military health system.

Spending Subject to Appropriation

As shown in Table 3, H.R. 179 would lower discretionary spending by DoD in 2002 and increase discretionary spending over the 2003-2006 period, assuming appropriations are adjusted by the estimated amounts. The net savings to DoD would be about $1 billion in outlays over the 2002-2006 period. Savings in 2002 stem from the reduced use of Tricare and MTFs (discussed earlier) by beneficiaries age 65 and over that occur before the trust fund begins operation (in 2003). Changes in use patterns by retirees under age 65 would also save money but those savings would be more than offset by the increase in accrual payments into the newly created trust fund.

Tricare for Life Savings. Because DoD's trust fund for Medicare-eligibles does not begin operation until fiscal year 2003, all of the savings in 2002 would be discretionary. The total savings from decreased use of Tricare, decreased use of MTFs and reimbursements from FEHB would total almost $1.8 billion in 2002. (For a complete discussion see Tricare for Life Savings in the "Direct Spending" discussion above.)

Accrual Payments to Trust Fund. Under current law, the DoD Medicare-Eligible Retiree Health Care Fund is responsible for paying for all DoD health care programs for Medicare-eligible beneficiaries. The payments into this fund will come from both DoD and the Treasury. DoD's payments will reflect the cost of providing future health care benefits. Under H.R. 179 the total cost of providing health care to Medicare-eligible beneficiaries would rise, increasing DoD's accrual payment to the trust fund. CBO estimates that this increase in the accrual payment would cost DoD more than $2 billion over the 2003-2006 period. (The trust fund does not start operation until 2003.)

TABLE 3. ESTIMATED SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 179

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for the Defense Health Program						
Estimated Authorization Level[a]	17,673	18,209	18,653	19,153	19,526	19,975
Estimated Outlays	18,250	18,481	18,597	18,938	19,572	19,810
Proposed Changes						
Tricare for Life Savings						
Estimated Authorization Level	0	-1,792	0	0	0	0
Estimated Outlays	0	-1,662	0	0	0	0
Accrual Payments						
Estimated Authorization Level	0	0	397	614	577	536
Estimated Outlays	0	0	397	614	577	536
DoD Retirees Under Age 65						
Estimated Authorization Level	0	-141	-346	-415	-441	-469
Estimated Outlays	0	-124	-318	-400	-433	-463
Subtotal-Proposed Changes						
Estimated Authorization Level	0	-1,933	51	199	136	67
Estimated Outlays	0	-1,786	79	214	144	73
Spending Under H.R. 179 for the Defense Health Program						
Estimated Authorization Level	17,673	16,276	18,704	19,352	19,662	20,042
Estimated Outlays	18,250	16,695	18,676	19,152	19,716	19,883

a. The 2001 level is the estimated amount appropriated for that year including amounts from the military personnel and military construction accounts that are used to provide defense health care. The current-law amounts for the 2002-2006 period assume that appropriations continue at the 2001 level with adjustments for anticipated inflation.

DoD Retirees Under Age 65. Those retirees and survivors under age 65 who would enroll in FEHB would no longer be able to use Tricare Standard or Extra, though they would be able to use the MTFs on a space-available basis. CBO estimates that in a steady state a little less than 200,000 users under the age of 65 would leave the military health care system. Using data from DoD, CBO estimates that the cost of direct patient care and Tricare use for these beneficiaries is about $1,900 per person. Thus, CBO estimates that DoD would save about $2 billion over the 2002-2006 period, assuming appropriations are reduced by the

estimated amounts. (This also reduces spending by the other uniformed services on health care for beneficiaries under age 65. Those savings are shown above under direct spending.)

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	0	2,466	2,579	3,384	3,449	3,507	3,565	3,622	3,687	3,770	3,869
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 179 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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