CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 11, 2002

S. 724
Mothers and Newborns Health Insurance Act of 2002

As reported by the Senate Committee on Finance on August 1, 2002

SUMMARY

S. 724 would provide $200 million annually for fiscal years 2003 through 2006 for states to provide health coverage to pregnant women under the State Children's Health Insurance Program (SCHIP). The bill also would require the Social Security Administration to change its system for reviewing awards to certain disabled adults in the Supplemental Security Income (SSI) program.

CBO estimates that enacting S. 724 would increase direct spending by $211 million over the 2003-2007 period, but would reduce direct spending by $448 million over the 2003-2012 period. Over the 10-year period, expanded health coverage for pregnant women would increase spending in SCHIP and Medicaid by about $900 million; those costs would be offset by savings in SSI and Medicaid of $1.3 billion. We estimate that implementing the bill's SSI-related provisions would cost $61 million over the 2003-2007 period and $126 million over the 2003-2012 period, assuming the appropriation of the necessary amounts.

S. 724 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that, assuming states take advantage of the options provided in the bill, total state spending for Medicaid would decrease by $533 million over the 2003-2012 period and increase by $286 million over the same period for SCHIP.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 724 is shown in Table 1. The costs of this legislation fall within budget functions 550 (health) and 600 (income security).

TABLE 1. ESTIMATED COSTS OF S. 724

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2003-2012
CHANGES IN DIRECT SPENDING											
Expanded Health Coverage for Pregnant Women											
State Children's Health Insurance Program											
Budget Authority	200	200	200	200	0	0	0	0	0	0	800
Estimated Outlays	48	70	154	131	59	-11	233	-5	-6	-6	666
Medicaid											
Estimated Budget Authority	-27	-11	-21	16	72	72	-62	59	64	68	229
Estimated Outlays	-27	-11	-21	16	72	72	-62	59	64	68	229
Subtotal											
Estimated Budget Authority	173	189	179	216	72	72	-62	59	64	68	1,029
Estimated Outlays	20	59	133	147	131	60	171	54	58	62	895
Review of SSI Disability Determinations											
Supplemental Security Income											
Estimated Budget Authority	-2	-10	-21	-28	-34	-46	-54	-63	-77	-72	-407
Estimated Outlays	-2	-10	-21	-28	-34	-46	-54	-63	-77	-72	-407
Medicaid											
Estimated Budget Authority	-4	-17	-34	-54	-75	-98	-122	-148	-176	-208	-936
Estimated Outlays	-4	-17	-34	-54	-75	-98	-122	-148	-176	-208	-936
Subtotal											
Estimated Budget Authority	-6	-27	-55	-82	-109	-144	-176	-211	-253	-280	-1,343
Estimated Outlays	-6	-27	-55	-82	-109	-144	-176	-211	-253	-280	-1,343
Total Changes in Direct Spending											
Estimated Budget Authority	167	162	124	134	-37	-72	-238	-152	-189	-212	-314
Estimated Outlays	14	32	78	65	22	-84	-5	-157	-195	-218	-448
CHANGES IN SPENDING SUBJECT TO APPROPRIATION											
Supplemental Security Income											
Estimated Authorization Level	9	13	13	13	13	13	13	13	13	13	126
Estimated Outlays	9	13	13	13	13	13	13	13	13	13	126

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

BASIS OF ESTIMATE

S. 724's budgetary effects encompass increased direct spending for expanding health coverage for pregnant women and reduced direct spending associated with SSI disability determinations. The bill's increased costs would total about $900 million over the next 10 years, but such costs would be more than offset by slightly more than $1.3 billion in savings for SSI-related effects. Over the next five years, the expanded health coverage for pregnant women would cost $490 million, and the savings from changes in SSI disability determinations would total $279 million, for a net five-year cost of $211 million.

In addition to the direct spending changes summarized above, CBO estimates that implementing the bill would increase spending subject to appropriation for conducting the disability reviews, under section 3 of the bill, for certain awards of disability benefits in the SSI program. Those discretionary costs would total $62 million over the next five years and $126 million over the next 10 years.

Expanded Health Coverage for Pregnant Women

S. 724 would allow states to provide pregnancy-related benefits (including 60 days of postpartum care) to pregnant women under SCHIP. As with coverage of children under SCHIP, states may establish a separate state program or rely on Medicaid to administer the benefit. The bill would provide $200 million in additional allotment funds each year during the 2003-2006 period for that purpose. Like existing SCHIP funds, states would have three years to spend their new allotments. After that, any unspent funds would be redistributed to states that have spent their entire allotments and made available for an additional year.

States could use the new funds to cover pregnant women with family income above 185 percent of the poverty level and up to income limits applied to children under the SCHIP program. States whose current income thresholds for pregnant women under Medicaid are below 185 percent of the poverty level first would have to expand coverage for pregnant women in Medicaid up to that level before covering those eligible under the bill. Only women without another source of health insurance would be eligible to participate. (The same standard applies to children under the SCHIP program.) Finally, any children born to women covered by SCHIP would be automatically covered by SCHIP for one year.

States would have a number of incentives under the bill to provide coverage to pregnant women. First, new coverage for pregnant women with incomes above 185 percent of the poverty level would be provided under SCHIP instead of Medicaid, which would allow states to receive a higher federal match rate. (The federal share of Medicaid spending is 57 percent, on average, compared to an average federal share of 70 percent for SCHIP.) Second, states that provide SCHIP coverage for at least some pregnant women would also

be able to use the new SCHIP allotments to cover children. Finally, states would be able to spend the new allotments on pregnant women with incomes above 185 percent of the poverty level that are currently covered by Medicaid.

The bill also would remove certain limitations on coverage for newborns in the Medicaid program, expand the types of entities that can determine Medicaid eligibility on a presumptive basis for pregnant women, and require states to charge certain costs for presumptive eligibility for children to Medicaid instead of SCHIP.

In this analysis, CBO first estimates the effect of the proposal on eligibility, participation and spending under the assumption that additional allotment funds are not capped and the provisions of the bill are in effect indefinitely. We then adjust the spending estimate to reflect the effect of the $200 million annual cap on the additional allotments for fiscal years 2003 through 2006.

Background. The Medicaid program is a major source of health insurance coverage for pregnant women, covering close to 40 percent of pregnancies (excluding those that end in abortion, which Medicaid generally does not cover). Under current law, states are required to provide full Medicaid coverage to pregnant women qualifying under their section 1931 (welfare-related) eligibility standards. Women remain eligible for coverage for two months after delivery. In most circumstances, newborn children are guaranteed one year of coverage.

States are required to provide limited Medicaid benefits—pregnancy-related services and two months of postpartum care—to other pregnant women with family income under 133 percent of the poverty level. States also have the option to provide that limited benefit package to pregnant women with income up to 185 percent of the poverty level. About two-thirds of states have exercised that option, and in some instances have extended coverage to women with income up to 200 percent of the poverty level by disregarding certain income. A few states have expanded Medicaid coverage to pregnant women at much higher income levels under waiver programs. Only a few states (primarily rural and poor) maintain eligibility levels at or close to the federally mandated limits.

Coverage of pregnant women in SCHIP is relatively limited compared to Medicaid. States can provide coverage either through a special program waiver or, under a new regulation, by extending coverage to unborn children. Coverage for mothers of unborn children does not include postpartum care. Three states currently cover pregnant women through program waivers; no states have elected yet to provide coverage to unborn children.

Number of eligible pregnant women. According to Social Security Administration data, there are about 4 million births in the United States each year. Adjusting for miscarriages and multiple births, and not including pregnancies that end in abortion, CBO estimates that there are about 4.5 million pregnancies each year. Based on research on Medicaid coverage of births from the March of Dimes and Medicaid data, CBO estimates that about 1.7 million of those pregnancies are covered by Medicaid.

CBO relied on analysis of the March 2000 Current Population Survey (CPS) and research on the health insurance status of pregnant women from the March of Dimes to estimate the number of women potentially eligible for the new benefit. About 3 million pregnant women have family incomes below 300 percent of the poverty level, which is the higher end of most states' SCHIP income limits. As noted above, 1.7 million of those women are enrolled in the Medicaid program. Of the 1.3 million women not enrolled in Medicaid, about 550,000 are eligible for Medicaid, but not enrolled in the program, and about 110,000, or 15 percent, are uninsured and thus could be eligible for benefits under the bill.

We relied on research findings compiled by the Academy for Health Services Research and Health Policy to estimate the extent of substitution of Medicaid for private coverage. CBO estimates that an additional 50,000 women between 133 percent and 300 percent of the poverty level would substitute SCHIP or Medicaid coverage under the bill for private coverage. In calculating that figure, CBO assumes that between 5 percent and 15 percent of women who otherwise would receive coverage through private means would either drop or fail to access private coverage.

Of those 160,000 women who are ineligible for Medicaid and otherwise uninsured, CBO estimates that 90,000 women would be eligible for Medicaid or SCHIP coverage if all states took the option. That estimate reflects the following assumptions about the types of programs states would design. First, we assume that all states would expand eligibility thresholds for pregnant women to meet those used for SCHIP children. In doing so, some of those states would first have to cover pregnant women below 185 percent of the poverty level under Medicaid. Second, we assume that some states would raise eligibility for SCHIP children and pregnant women concurrently. (Under current law, a number of states have expanded coverage under Medicaid to pregnant women to match income standards established for children under SCHIP.) About 55 percent of those women—about 50,000—would have family income above 185 percent of the poverty level, and would therefore be eligible for expanded SCHIP coverage. The balance—about 40,000 women—would be newly eligible for Medicaid.

State and beneficiary participation. As mentioned previously, S. 724 would offer states several incentives to expand coverage for pregnant women. CBO expects that states with about one-third of the potential eligible women would respond to those incentives, thus

making about 30,000 pregnant women eligible for coverage. That figure assumes that there would not be any constraints on federal spending, and thus, it should be interpreted as an upper bound.

Most of those states would have eligibility standards for pregnant women under Medicaid that are lower than SCHIP standards for children under current law. However, we anticipate that other states also would take up the option, particularly in cases where SCHIP spending for children under current law is constrained by available allotments. CBO also anticipates that all states that cover pregnant women with income above 185 percent of the poverty level would take up the option under the bill to secure additional funds for coverage of those women.

Only a few of the states that would have to expand Medicaid eligibility to 185 percent of the poverty level before accessing the new allotments would choose to participate. For most of those states, the expansion would prove too expensive because they would receive the less-generous Medicaid match rate for the bulk of new coverage.

CBO estimates that about 75 percent of eligible pregnant women ultimately would participate. That figure is based on analysis of the March 2000 CPS and Medicaid data. Under current law, about 80 percent of eligible pregnant women under 185 percent of the poverty level participate in Medicaid. We assume that there would be slightly lower participation at the higher income levels covered under the bill. After accounting for a phase-in period of several years, CBO estimates that 22,500 women a year would participate in SCHIP if funding were open-ended. About 30 percent of those women would have family income that is less than 185 percent of the poverty level, and would receive coverage under the Medicaid program. The balance would receive coverage under the SCHIP program from the new allotments.

Ultimately, participating pregnant women would give birth to about 22,500 newborns a year. Those newborns would be eligible for 12 months of continuous coverage under a separate provision of the bill. Because we anticipate that most of those newborns would be enrolled in SCHIP under current law, only about 2,200 newborns annually would be newly covered under the bill.

Per capita costs. Based on a March of Dimes study on the costs of pregnancy coverage, CBO estimates that the per capita cost of covering pregnant women in Medicaid will be about $6,200 in 2003. Those costs are expected to grow at about 6 percent to 7 percent annually, and thus rise to $8,100 by 2007. Those figures include the cost of two months of postpartum care. In 2007, the federal government's share would be $5,700 for women enrolled in SCHIP and $4,600 for women enrolled in Medicaid.

Administrative data from the Medicaid program suggest that newborns are about 70 percent more expensive than children overall in the Medicaid program. On a per capita basis, CBO estimates that coverage for newborns will cost about $3,200 per child in 2003 and will rise to $4,200 by 2007. The federal government's share for SCHIP and Medicaid infants in 2007 will be about $2,900 and $2,400, respectively.

Costs of expanding coverage without funding constraint. Table 2 provides detail on the cost of expanded coverage for pregnant women with and without allotment constraints. If there were no limitations on funding, states would be able to receive the SCHIP enhanced federal matching rate for covering pregnant women with incomes over 185 percent of the poverty level. CBO estimates that this provision would result in new SCHIP costs of $900 million in 2007 and almost $10 billion between 2003 and 2012. That level of spending would not occur under S. 724, however, because funding constraints would apply. Without funding constraints, there would be corresponding Medicaid savings of about $700 million in 2007 and $8 billion over the 2003-2012 period. On net, the provision would increase federal spending by $200 million in 2007 and by $2 billion over the 2003-2012 period—again, only if there were no funding constraints.

CBO estimates that the federal costs of expanding coverage to pregnant women would be about $120 million in 2007 and $1.1 billion over the 2003-2012 period. Three-quarters of that amount would cover pregnant women under SCHIP, with costs reaching about $90 million in 2007 and $835 million over the 10-year period. Medicaid would pay for the remaining costs (for additional pregnant women below 185 percent of poverty).

CBO expects that about one-third of the costs of covering pregnant women otherwise would be paid by SCHIP under current law through waivers or coverage of unborn children. This existing coverage would reduce the costs of the bill by about $290 million over the 2003-2012 period.

Without funding constraints, CBO estimates that SCHIP spending on children would decrease by about $100 million over the 2003-2012 period. Within that total, spending would increase by about $60 million for coverage of additional newborns. Those costs would be offset by about $110 million in savings as Medicaid assumes the costs of covering certain infants who do not reside with their mother and $50 million in savings because costs for providing presumptive Medicaid eligibility to children would be shifted from SCHIP to Medicaid. (The latter two provisions are discussed in more detail later in the estimate.)

Without funding constraints, the expanded coverage for pregnant women under S. 724 would increase direct spending by about $2.7 billion during fiscal years 2003 through 2012. As detailed below, however, SCHIP funding would be constrained.

TABLE 2. ESTIMATED COSTS OF EXPANDED HEALTH COVERAGE FOR PREGNANT WOMEN

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2003-2012
CHANGES IN ESTIMATED OUTLAYS, WITHOUT ALLOTMENT CONSTRAINTS											
Estimated Changes in SCHIP Outlays											
Provide higher match rate	683	726	777	836	900	966	1,041	1,120	1,208	1,300	9,557
Pregnant women	11	36	64	82	88	95	102	110	119	128	835
Offset for SCHIP waivers	-15	-20	-26	-28	-29	-31	-33	-35	-37	-39	-293
Children and other effects	9	-9	-8	-9	-9	-10	-11	-12	-13	-14	-103
Subtotal, SCHIP	671	732	806	882	950	1,020	1,099	1,184	1,276	1,374	9,995
Estimated Changes in Medicaid Outlays											
Provide higher match rate	-556	-591	-632	-681	-733	-787	-848	-912	-984	-1,059	-7,782
Pregnant women	4	12	22	28	31	33	35	38	41	44	289
Other Medicaid costs	18	27	40	50	46	41	35	28	31	33	349
Subtotal, Medicaid	-543	-560	-579	-611	-665	-722	-788	-858	-925	-996	-7,247
Total Changes in Direct Spending	127	173	227	271	285	298	312	326	351	379	2,748
CHANGES IN ESTIMATED OUTLAYS, CONSTRAINED BY ALLOTMENTS											
Estimated Changes in SCHIP Outlays											
Provide higher match rate	60	60	60	60	0	0	0	0	0	0	240
Pregnant women	11	36	64	82	87	0	0	0	0	0	280
Children and other effects	-23	-25	30	-12	-29	-11	233	-5	-6	-6	146
Subtotal, SCHIP	48	70	154	131	59	-11	233	-5	-6	-6	666
Estimated Changes in Medicaid Outlays											
Provide higher match rate	-49	-49	-49	-49	0	0	0	0	0	0	-195
Pregnant women	4	12	22	28	31	33	35	38	41	44	289
Other Medicaid costs	18	27	40	50	46	41	35	28	31	33	349
Interaction with SCHIP	0	-2	-34	-13	-5	-2	-133	-8	-8	-9	-214
Subtotal, Medicaid	-27	-11	-21	16	72	72	-62	59	64	68	229
Total Changes in Direct Spending	20	59	133	147	131	60	171	54	58	62	895

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

Costs of expanding coverage with funding constraint. Over the 2003-2012 period, additional funds provided under S. 724 would total $800 million, far less than SCHIP spending would increase without funding constraints. CBO anticipates that states taking up the option would use those funds for a range of purposes permitted under the bill. We assume that states would reserve $70 million a year through 2006 for expansions of pregnant women, $60 million for a higher federal match for women with income above 185 percent of the poverty level now covered by Medicaid, and $70 million to supplement current allotment funds for children.

CBO estimates that federal SCHIP spending on pregnant women and children would increase by $666 million over the 2003-2012 period. About one-third of that spending ($240 million) would provide enhanced federal matching funds for pregnant women now enrolled in Medicaid under current law. An additional $280 million in spending would expand coverage for pregnant women through 2007. (Because states have three years to spend SCHIP funds, some spending would occur after 2006.) About 15,000 pregnant women would newly receive SCHIP coverage in that year. The balance of the spending increase would be for children newly covered under the SCHIP program, and would include the interactive effects of other Medicaid provisions on SCHIP.

Federal Medicaid spending for fiscal years 2003 through 2012 would decrease by $195 million as SCHIP assumed the costs of covering some pregnant women with income above 185 percent of the poverty level. At the same time, spending under the Medicaid program would increase as states expand coverage to pregnant women below 185 percent of poverty; CBO estimates those costs to be $289 million over the same period and that about 6,700 pregnant women would be newly covered. CBO assumes that after the allotments have been exhausted, states would continue to cover those pregnant women under Medicaid.

Other Medicaid costs. CBO estimates that additional provisions in S. 724 would increase Medicaid costs by a total of $349 million over the 2003-2012 period. First, the bill would remove a requirement that newborns must remain in their mother's household during their first year of life in order to remain eligible for Medicaid. We estimate that deleting the requirement would increase Medicaid enrollment by about 7,000 women and their infants annually, and cost $182 million over the 2003-2012 period.

Second, the bill would require states to charge Medicaid for the costs of providing presumptive eligibility under Medicaid to children who are later found ineligible for that program. Under current law, those costs are charged to SCHIP. CBO estimates that this provision would increase Medicaid spending by $49 million over fiscal years 2003 through 2012.

Finally, S. 724 would increase Medicaid costs by broadening outreach efforts to enroll pregnant women. The bill would allow states to determine Medicaid eligibility on a presumptive basis for pregnant women at facilities that conduct eligibility determinations for Head Start, the Child Care Development Block Grant, and the special supplemental nutrition program for women, infants, and children. The bill's expansion of coverage for pregnant women under SCHIP would also increase the number of pregnant women enrolled in Medicaid because some of the pregnant women who apply for SCHIP coverage would be found eligible for Medicaid instead. CBO estimates that the additional outreach would enroll another 5,000 pregnant women and their newborns in Medicaid, raising spending in that program by $118 million over the 2003-2012 period.

CBO estimates the Medicaid and SCHIP provisions of the bill would have no significant effect on spending subject to appropriation.

Review of SSI Disability Determinations

Section 3 of the bill would require the Social Security Administration to conduct reviews of initial decisions to award SSI benefits to certain disabled adults. The legislation mandates that the agency review at least 25 percent of all favorable adult disability determinations made by state-level Disability Determination Service (DDS) offices in 2003. Under the legislation, the agency would have to review at least half of the adult disability awards made by DDS offices in 2004 and beyond.

CBO anticipates state DDS offices will approve between 350,000 and 400,000 adult disability applications for SSI benefits annually between 2003 and 2012. Based on recent data for comparable reviews in the Social Security Disability Insurance program, CBO projects that by 2012, nearly 20,000 DDS awards will have been ultimately overturned under the bill, resulting in lower outlays for SSI and Medicaid. (In most states SSI eligibility automatically confers entitlement to Medicaid benefits.) We estimate that SSI average awards per beneficiary would be $5,000 in fiscal year 2003, and that federal Medicaid costs for those beneficiaries would be $7,900 in that year.

CBO estimates that the bill would reduce SSI benefits by $2 million and Medicaid outlays by $4 million in 2003. Over the 2003-2012 period, CBO estimates this provision would lower SSI outlays by $407 million and Medicaid spending by $936 million.

Conducting those disability reviews would increase administrative expenses of the Social Security Administration. CBO estimates section 3 would increase spending subject to appropriation by $9 million in 2003 and $126 million over the 2003-2012 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no intergovernmental or private-sector mandates as defined in UMRA. CBO estimates that, assuming states take advantage of the options provided in the bill, total state spending for Medicaid would decrease by $533 million over the 2003-2012 period and increase by $286 million over the same period for SCHIP.

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