

June 13, 2001

Honorable Edward M. Kennedy
Chairman
Committee on Health, Education, Labor,
and Pensions
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

The Congressional Budget Office has estimated the budgetary impact of S. 872, the Bipartisan Patient Protection Act, as introduced on May 14, 2001, with modifications provided by staff. CBO estimates that, over the 2002-2011 period, enacting S. 872 would reduce federal revenues by \$22.6 billion and would reduce direct spending by \$15.2 billion. Because the bill would affect revenues and direct spending, pay-as-you-go procedures would apply.

The Bill's Major Provisions

S. 872 would impose new requirements on the structure and operation of group health plans and issuers of health insurance and would provide members of health plans and insured individuals with new rights to obtain certain health care services. Those new rights include coverage of routine patient-care costs in clinical trials funded by the National Institutes of Health or approved by the Food and Drug Administration; access to out-of-network providers, including hospital emergency departments; and access to specialists, including obstetricians, gynecologists, and pediatricians.

The bill would require both internal and external review processes for members to appeal claims denied by health plans and insurers. It would also amend the Employee Retirement Income Security Act to allow individuals to sue health plans and insurers for personal injury or wrongful death—in federal court for failure to comply with terms of the plan and in state court under state

tort laws. (The liability provisions include modifications provided by staff that do not affect CBO's estimate.) These provisions would take effect beginning October 1, 2002.

S. 872 would also shift certain outlays for Part B of Medicare from fiscal year 2002 to 2003, extend certain user fees charged by the Customs Service, and transfer amounts from general revenues to the Social Security trust funds to offset reductions in revenue from Social Security payroll taxes.

Estimated Impact on Federal Revenues

CBO estimates that S. 872, if enacted, would ultimately increase the premiums for employer-sponsored health plans by an average of 4.2 percent, before accounting for the responses of plans, employers, and workers to the higher prices (see Table 1). CBO assumes that 60 percent of that increase would be offset by changes in profits and by purchasers switching to less expensive plans, cutting back on benefits, or dropping coverage. The remaining 40 percent, or about 1.7 percent of private health insurance costs, would be passed through to workers as lower taxable compensation. Reductions in such compensation would lead to lower federal and state tax revenues. CBO estimates that federal tax revenues would fall by \$45 million in 2002 and by \$22.6 billion over the 2002-2011 period if S. 872 were enacted. Social Security payroll taxes, which are off-budget, account for about 30 percent of those totals (see Table 2).

Estimated Impact on Direct Spending

S. 872 would reduce direct spending by an estimated \$235 million in 2002 and by \$15.2 billion over the 2002-2011 period. That total includes an \$8.2 billion decrease in on-budget direct spending and a \$6.9 billion decrease in off-budget direct spending. The patient protection provisions would increase direct spending for annuitants participating in the Federal Employees Health Benefits program by \$185 million over the 2003-2011 period. The bill would shift \$235 million in spending for Medicare Part B from the last day of fiscal year 2002 to the first day of fiscal year 2003. (That estimate reflects a modification provided by staff that would specify that, on September 30, 2002, Medicare carriers could not send the Federal Reserve Board or the Treasury Department a letter of credit requesting payment.)

Honorable Edward M. Kennedy
Page 3

S. 872 would also extend expiring user fees charged by the Customs Service, beginning in 2004. That provision would result in offsetting receipts totaling \$15.4 billion through 2011. Finally, the bill would require the Secretary of the Treasury to transfer from general revenues amounts sufficient to ensure that the bill would not affect the balances of the Social Security trust funds. CBO estimates that the on-budget outlay and the off-budget receipt of those transfers by the Social Security trust funds would total \$6.9 billion during the 2002-2011 period.

Because the bill would affect federal revenues and direct spending, pay-as-you-go procedures would apply. The on-budget effects on revenue and direct spending are shown in Table 3. For pay-as-you-go purposes, only the on-budget effects in the current year, the budget year, and the succeeding four years are counted.

I hope this information is helpful to you. The CBO staff contact is Tom Bradley.

Sincerely,

Dan L. Crippen
Director

Attachments

cc: Honorable Judd Gregg
Ranking Member

Honorable Kent Conrad
Chairman, Senate Committee on the Budget

Honorable Pete V. Domenici
Ranking Member

Identical letters sent to Honorable Max Baucus, Honorable John McCain, and Honorable John Edwards

Table 1. Estimated Ultimate Effect of S. 872, The Bipartisan Patient Protection Act, on Premiums for Employer-Sponsored Health Insurance (In Percent)

Provision	Increase in Premiums
Subtitle A—Grievances and Appeals	
Utilization review activities	0.2
Procedures for initial claims and prior authorization	a
Internal and external appeals	1.0
Subtitle B—Access to Care	
Consumer choice	0.1
Choice of health care professional	a
Access to emergency care	0.4
Access to specialty care	0.3
Access to obstetric and gynecological care	0.1
Access to pediatric care	a
Continuity of care	0.3
Access to needed drugs	a
Clinical trials	0.8
Subtitle C—Access to Information	0.1
Subtitle D—Protecting the Doctor-Patient Relationship	a
Subtitle E—Definitions	
Coverage of limited scope plans	a
Title III—Availability of Civil Remedies	0.8
Title IV—Women’s Health and Cancer Rights	<u>0.2</u>
Total	4.2

SOURCE: Congressional Budget Office.

a. Less than 0.05 percent

Table 2. Estimated Effect on Revenues and Direct Spending of S. 872, the Bipartisan Patient Protection Act

	By Fiscal Year, in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CHANGES IN REVENUES										
Income and HI Payroll Taxes (on-budget)	-30	-350	-840	-1,305	-1,645	-1,955	-2,155	-2,305	-2,470	-2,650
Social Security Payroll Taxes (off-budget)	<u>-15</u>	<u>-155</u>	<u>-370</u>	<u>-575</u>	<u>-725</u>	<u>-865</u>	<u>-950</u>	<u>-1,015</u>	<u>-1,090</u>	<u>-1,170</u>
Total	-45	-505	-1,210	-1,880	-2,370	-2,820	-3,105	-3,320	-3,560	-3,820
CHANGES IN DIRECT SPENDING										
Increased FEHB Costs for Annuitants	0	5	10	10	20	25	25	30	30	30
Delay in Payments by Medicare Carriers	-235	235	0	0	0	0	0	0	0	0
Customs User Fees	0	0	-1,485	-1,675	-1,765	-1,865	-1,970	-2,080	-2,195	-2,320
Transfer to Social Security: on-budget	15	155	370	575	725	865	950	1,015	1,090	1,170
off-budget	<u>-15</u>	<u>-155</u>	<u>-370</u>	<u>-575</u>	<u>-725</u>	<u>-865</u>	<u>-950</u>	<u>-1,015</u>	<u>-1,090</u>	<u>-1,170</u>
Total	-235	240	-1,475	-1,665	-1,745	-1,840	-1,945	-2,050	-2,165	-2,290

NOTE: HI = Hospital Insurance; FEHB = Federal Employees Health Benefits program.

Table 3. Estimated Effects of S. 872, the Bipartisan Patient Protection Act, on On-Budget Revenues and Direct Spending

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in Revenues (on-budget)	0	-30	-350	-840	-1,305	-1,645	-1,955	-2,155	-2,305	-2,470	-2,650
Change in Outlays (on-budget)	0	-220	395	-1,105	-1,090	-1,020	-975	-995	-1,035	-1,075	-1,120