CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 23, 2008

# H.R. 1222

## Keep Our Promise to America's Military Retirees Act

*As introduced on February 28, 2007*

## SUMMARY

H.R. 1222 would allow retirees of the uniformed services and their dependents and survivors to enroll in the Federal Employees Health Benefits (FEHB) program. Those who choose to enroll would not be eligible to use their military health insurance (TRICARE), though they could continue to receive care at military treatment facilities on a space-available basis. CBO estimates that enacting H.R. 1222 would increase direct spending by $2.4 billion over the 2010-2013 period and $7.6 billion over the 2010-2018 period.

Enacting the bill also would increase federal revenues by about $1.5 billion over the 2010-2018 period, of which about $1 billion would be classified as on-budget and the remainder would be off-budget. CBO estimates that, on net, the effects of H.R. 1222 on direct spending and revenues would increase deficits (or lower surpluses) by about $6.1 billion over the 2010-2018 period. In addition, CBO estimates that the bill would save $3.7 billion in discretionary spending over the 2010-2018 period, assuming appropriations are reduced by the estimated amounts.

In accordance with section 311 of the Concurrent Resolution on the Budget for Fiscal Year 2009 (S. Con. Res. 70), CBO estimates H.R. 1222 would increase projected deficits by more than $5 billion in at least one of the four consecutive 10-year periods beyond the budget window in this estimate.

H.R. 1222 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. 1222 is shown in the following table. The costs of this legislation fall within budget functions 050 (national defense), 300 (natural resources), 400 (transportation), and 550 (health).

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2009-2013 | 2009-2018 |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | | | |
| Federal Employees Health Benefits Program | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 203 | 499 | 822 | 934 | 975 | 1,017 | 1,061 | 1,107 | 1,155 | 2,458 | 7,773 |
| Estimated Outlays | 0 | 203 | 499 | 822 | 934 | 975 | 1,017 | 1,061 | 1,107 | 1,155 | 2,458 | 7,773 |
| Coast Guard and Other Uniformed Services | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | -4 | -9 | -15 | -17 | -17 | -18 | -19 | -20 | -21 | -45 | -140 |
| Estimated Outlays | 0 | -4 | -9 | -15 | -17 | -17 | -18 | -19 | -20 | -21 | -45 | -140 |
| Total Changes in Direct Spending | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 199 | 490 | 807 | 917 | 958 | 999 | 1,042 | 1,087 | 1,134 | 2,413 | 7,633 |
| Estimated Outlays | 0 | 199 | 490 | 807 | 917 | 958 | 999 | 1,042 | 1,087 | 1,134 | 2,413 | 7,633 |
| **CHANGES IN REVENUES** | | | | | | | | | | | | |
| On-budget | 0 | 25 | 62 | 102 | 121 | 127 | 132 | 138 | 143 | 148 | 310 | 998 |
| Off-budget | 0 | 14 | 35 | 57 | 65 | 67 | 69 | 71 | 74 | 76 | 171 | 528 |
| Total Changes in Revenues | 0 | 39 | 97 | 159 | 186 | 194 | 201 | 209 | 217 | 224 | 481 | 1,526 |
| Net Changes in Direct Spending and Revenues | 0 | 160 | 393 | 648 | 731 | 764 | 798 | 833 | 870 | 910 | 1,932 | 6,107 |
| **SPENDING SUBJECT TO APPROPRIATION** | | | | | | | | | | | | |
| Defense Health Program (TRICARE) | | | | | | | | | | | | |
| Estimated Authorization Level | 0 | -101 | -249 | -409 | -464 | -483 | -504 | -526 | -549 | -575 | -1,223 | -3,860 |
| Estimated Outlays | 0 | -80 | -214 | -368 | -442 | -472 | -495 | -517 | -540 | -565 | -1,104 | -3,693 |

## BASIS OF ESTIMATE

H.R. 1222 would affect direct spending, revenues, and spending subject to appropriation. For this estimate, CBO assumes that the bill will be enacted early in fiscal year 2009, that spending will follow historical patterns for existing programs, and that appropriations will be reduced by the estimated amounts.

**Direct Spending**

Under H.R. 1222, direct spending would increase, on net, by about $7.6 billion over the 2010-2018 period, primarily from increased federal contributions for FEHB premiums. CBO estimates those contributions would increase by about $7.8 billion over the 2010-2018 period. The increase would be partially offset by a reduction in outlays totaling about $140 million from the spending accounts for retiree health care of the Coast Guard, the Public Health Service (PHS), and the National Oceanic and Atmospheric Administration (NOAA).

**Federal Employees Health Benefits Program**. H.R. 1222 would allow retirees from the uniformed services along with their dependents and surviving spouses to enroll in the FEHB program in the same manner as federal employees and annuitants. Under current law, retirees from the uniformed services are not allowed to enroll in the FEHB program unless they meet the criteria for employees or annuitants of the federal government. (H.R. 1222 would not apply to retirees from the uniformed services who are otherwise eligible to participate in the FEHB program.) Even though the bill would allow all retirees, dependents, and survivors to enroll in the FEHB program, CBO expects only those retirees who are not currently eligible for Medicare would consider enrolling in the FEHB program—essentially, those retirees and survivors who are under the age of 65.[1]

Annual FEHB premium contributions for civil service annuitants are classified in the federal budget as mandatory appropriations. Because H.R. 1222 does not provide any specific guidance on the responsibility or method of funding the FEHB premiums for military retirees, CBO assumes the federal contributions would be classified as mandatory, as they are for civil service annuitants.

Based on data from the Department of Defense (DoD), CBO estimates that more than 1 million retirees and surviving spouses would be eligible to enroll in the FEHB program under H.R. 1222, and that about 80 percent of those individuals have dependents. Data from the Office of Personnel Management show that of the retirees of the uniformed services currently working for the federal government in a civilian capacity, about 20 percent are enrolled in FEHB.[2] However, CBO estimates this percentage will decrease over the next several years because the out-of-pocket costs for the FEHB program are expected to continue

1. Medicare-eligible retirees of the uniformed services and their dependents are eligible to use the TRICARE For Life (TFL) health benefit. TFL generally pays the balance of any medical costs not covered by Medicare. Because TFL has no premiums and minimal out-of-pocket costs, CBO expects very few Medicare-eligible retirees of the uniformed services would replace their TFL coverage with FEHB.

2. The data from OPM show that there are currently 112,341 retired military members currently working for the federal government who are eligible for FEHB. Of those members, about 21,656 are currently enrolled in FEHB.

to increase over the coming years relative to the costs of TRICARE Prime and TRICARE Standard.[3] CBO also expects the FEHB participation rate would be lower among retirees who are not currently working for the federal government because they are unfamiliar with the program. For this estimate, CBO estimates that the FEHB participation rate for retirees of the uniformed services who are not currently eligible for FEHB would be half that of those currently working for the federal government—about 10 percent.

CBO estimates that the average per capita cost of providing health insurance through the FEHB program in 2008 is slightly over $5,000 for a self-only policy and about $12,000 for a family policy. The federal government would be responsible for roughly 70 percent of the total premium for each retiree or survivor who chooses to enroll in FEHB. After adjusting those figures for inflation, CBO estimates that enacting H.R. 1222 would result in additional direct spending for the federal contributions to the FEHB program of about $1 billion per year and $7.8 billion over the 2010-2018 period. Costs would be lower in the first several years because CBO assumes eligible beneficiaries would change their preferences gradually and because of the timing of the FEHB program's open enrollment period.

**Coast Guard and Other Uniformed Services**. Some of the new enrollees in the FEHB program would be retirees and surviving spouses from the Coast Guard and the commissioned corps' of the PHS and NOAA. Under current law, those individuals can receive health care from TRICARE, and those outlays are considered direct spending. CBO estimates that under H.R. 1222, about 1,500 of those retirees and survivors who had previously used TRICARE would eventually enroll in FEHB, with annual per capita savings to TRICARE of about $10,000. CBO estimates that enacting H.R. 1222 would reduce TRICARE costs for the Coast Guard, PHS, and NOAA by about $20 million per year and $140 million over the 2010-2018 period. (The savings for retirees and surviving spouses from the military are discussed below under the heading "Spending Subject to Appropriation.")

**Revenues**

If H.R. 1222 is enacted, CBO assumes that some individuals who are currently enrolled in health insurance plans offered by their employers would choose to drop that coverage and elect coverage under FEHB. Those individuals would lose the tax advantage of paying health insurance premiums using pre-tax dollars, which is allowed for most employer-sponsored

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3. Retirees of the uniformed services under the age of 65 have several health insurance choices. Many choose to use health benefits provided by their private-sector employers. Those who wish to use government benefits are eligible to choose from several plans administered by the Department of Defense's TRICARE health system. The two most popular plans are TRICARE Prime, an HMO option, and TRICARE Standard, a fee-for-service plan.

health insurance plans. (Federal retirees do not receive that tax advantage for premiums paid under FEHB.)

In addition, CBO assumes that the total compensation paid to the individuals would be unaffected by the passage of H.R. 1222. As a result, individual income and social insurance tax receipts would increase because most of the health insurance premiums previously paid by the employer would instead be paid to the employee as taxable wages. (Some portion of the compensation would be conveyed in the form of fringe benefits, which would not be subject to taxation.) CBO also assumes that some individuals would have additional itemized deductions due to the change, which would offset a portion of the other revenue increases. CBO estimates that, on net, H.R. 1222 would increase revenues by $39 million in 2010 and $481 million over the 2010-2013 period. Overall, H.R. 1222 would increase federal revenues by about $1.5 billion from 2010 to 2018. (Of that amount, about $1 billion would be classified as on-budget and the balance, for Social Security taxes, would be off-budget.)

**Spending Subject to Appropriation**

Those retirees and surviving spouses from the military who choose to enroll in the FEHB program would no longer be eligible to use the TRICARE health benefit, though they would still be allowed to use military treatment facilities on a space-available basis. While all retirees and survivors are eligible to use TRICARE, many of them choose to take advantage of other insurance options. For this estimate, CBO estimates that about half of the new FEHB enrollees currently use TRICARE and the other half use other insurance, based on the results of a recent RAND survey.[4] Using data from DoD on TRICARE expenditures in fiscal year 2007, CBO estimates that, in 2010, DoD would save, on average, about $10,000 for each retiree and survivor that opted to enroll in the FEHB program. Such costs are paid from DoD's appropriated funds. Thus, CBO estimates implementing H.R. 1222 would eventually reduce the cost of TRICARE by about $500 million per year, and about $3.7 billion over the 2010-2018 period, assuming appropriations are reduced by the estimated amounts.

4. Louis T. Mariano and others, *Civilian Health Insurance Options of Military Retirees: Findings from a Pilot Survey* (report prepared by the RAND Corporation for the Office of the Secretary of Defense, 2007).

## IMPACT ON LONG-TERM DEFICITS

In accordance with section 311 of the Concurrent Resolution on the Budget for Fiscal Year 2009 (S. Con. Res. 70), CBO estimates H.R. 1222 would increase projected deficits by more than $5 billion in at least one of the four consecutive 10-year periods beyond the budget window in this estimate.

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1222 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

## ESTIMATE PREPARED BY:

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