CONGRESSIONAL BUDGET OFFICE
PAY-AS YOU-GO ESTIMATE

November 2, 1998

H.R. 1836

Federal Employees Health Care Protection Act of 1998

As enacted on October 19, 1998

SUMMARY

H.R. 1836, enacted as Public Law 105-266, modifies the administration of the Federal Employees Health Benefits (FEHB) program, transfers the health coverage of retirees and certain active employees of the Federal Deposit Insurance Corporation (FDIC) and the Board of Governors of the Federal Reserve to the FEHB program, and raises the pay of certain physicians employed by the federal government. CBO estimates that the legislation will reduce direct spending by $54 million and federal revenues by $7 million over the 1999-2003 period. Under the Balanced Budget and Emergency Deficit Control Act, provisions providing the funding necessary to meet the government's deposit insurance commitment are excluded from pay-as-you-go procedures. CBO believes that this exclusion applies to the provisions in H. R. 1836 that result in estimated savings of $47 million over the 1999-2003 period. We estimate that other provisions in the act that are subject to pay-as-you-go procedures will reduce direct spending by $7 million and revenues by $7 million over the 1999-2003 period.

In addition, CBO estimates that implementing H.R. 1836 affects discretionary spending, but this estimate does not address these effects.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of H.R. 1836 on direct spending and revenues is shown in the following table. Only the estimated changes in the budget year and the succeeding four years are counted for pay-as-you-go purposes.

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CHANGES IN RECEIPTS—Subject to Pay-as-you-go Procedures										
Changes in Payments for Employees of the Federal Reserve										
Estimated Revenues	-11	-1	-1	-1	-1	-1	-1	-1	-1	-1
CHANGES IN DIRECT SPENDING—Subject to Pay-as-you-go Procedures										
Changes in FEHB Spending - Federal Reserve										
Estimated Budget Authority	-11	1	1	1	1	1	1	1	1	1
Estimated Outlays	-11	1	1	1	1	1	1	1	1	1
CHANGES IN DIRECT SPENDING—Not Subject to Pay-as-you-go Procedures										
Net Changes in FEHB and FDIC Spending										
Estimated Budget Authority	-167	5	6	7	9	9	10	11	11	12
Estimated Outlays	-7	-9	-9	-11	-11	-14	-16	-18	-20	-23

BASIS OF ESTIMATE

Various provisions of H.R. 1836 affect direct spending or receipts. The provisions that affect direct spending related to the increase in costs to the FEHB program and the decrease to the FDIC from its employees joining the FEHB plan are excluded from pay-as-you-go calculations because they are associated with maintaining the deposit insurance commitment. CBO believes that the effects on direct spending and revenues associated with changes in the cost of health care for employees of the Federal Reserve is not excluded.

H.R. 1836 transfers the health insurance coverage of retirees and certain active employees of the FDIC and the Board of Governors of the Federal Reserve System to the FEHB program. Currently, those two agencies operate their own health insurance programs. The legislation also requires the two agencies to make a one-time payment to the Office of Personnel Management (OPM), which administers the FEHB program, to cover the long-term cost of the government's contribution toward the insurance premiums of the newly covered individuals. The current Federal Reserve plan is more expensive than the typical FEHB plan because the insured employees are older and fewer in number, and it provides more generous coverage. We estimate that the Federal Reserve will make a one-time payment of $12 million to OPM in 1999, with associated savings from lower health insurance costs of $1 million, for a net reduction in revenues of $11 million. The associated savings to the Federal Reserve and costs to the FEHB program beyond 1999 will both approximate $1 million per year, although FEHB costs may be slightly less and the Federal Reserve's savings slightly more. The budgetary effects on the Federal Reserve are recorded on the revenue side of the budget. Thus, the resulting increases in federal revenues beyond 1999 approximate the increases in FEHB costs for coverage of Federal Reserve personnel, and we expect the net budgetary impact of those provisions to be negligible in each fiscal year.

For similar reasons, the shifting of the employees and retirees of the FDIC to the FEHB program reduces direct spending in each year because the FDIC pays more for health insurance than the FEHB program will. The transfers between the FDIC and the FEHB program will have a similar effect, but significantly more employees will be affected at the FDIC. Ongoing savings grow from an estimated $7 million in fiscal year 1999 to $11 million in 2003. CBO assumes that the FDIC will make the required one-time payment to OPM in January 1999. CBO estimates that the one-time payment will be $170 million; but we also estimate that the FDIC will save $10 million in the same year from lower health insurance costs. The estimated net cost to the FDIC in 1999, therefore, is $160 million. Reflecting the expected transfer from the FDIC, the FEHB program will receive the payment of $170 million in 1999, but will incur additional costs of about $3 million to insure those employees and retirees, for net savings of $167 million to the FEHB program.

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