CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 4, 2003

H.R. 2426
Domestic Partnership Benefits and Obligations Act of 2003

As introduced in the House of Representatives on June 11, 2003, with a modification requested by the sponsor

SUMMARY

H.R. 2426 would provide fringe benefits to domestic partners of federal employees. Same-sex and opposite-sex domestic partners of federal employees would be entitled to the same benefits available to spouses of federal employees. Those benefits would include survivor annuities, health insurance, life insurance, and compensation for work-related injuries. Additionally, H.R. 2426 would amend the Internal Revenue Code by exempting domestic partner benefits from federal income taxes.

CBO estimates that enacting the bill would increase direct spending by $137 million over the 2004-2008 period and by $242 million over the next 10 years. Discretionary spending under the bill would increase by $525 million over the 2004-2008 period and by about $1.3 billion over the next 10 years, assuming appropriation of the necessary funds. The bill would also affect federal revenues; those effects would have to be estimated by the Joint Committee on Taxation (JCT).

H.R. 2426, as introduced, would extend benefits to domestic partners of active federal employees and of current and prospective retirees. At the request of the sponsor, this estimate excludes the costs of extending such benefits to domestic partners of *currently* retired federal employees. (Including benefits for the domestic partners of currently retired federal employees would increase direct spending by an additional $448 million over the 2004-2008 period and $1.4 billion over the 2004-2013 period; it would not result in additional discretionary costs.)

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2426 is shown in the following table. The costs of this legislation fall within budget functions 550 (health) and 600 (income security).

	Outlays in Millions of Dollars, By Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in Direct Spending										
Increase in FEHBP Benefits (future retirees)	4	9	14	19	25	32	40	49	58	69
Net Increase in FECA Outlays [a]	2	2	*	*	*	*	*	*	*	*
Postal Service FEHBP and FECA Costs (off-budget)	54	59	0	0	0	0	0	0	0	0
Reduction in Survivor Annuity Payments	-3	-7	-10	-13	-17	-21	-25	-29	-32	-36
Total, Direct Spending	57	63	3	5	8	11	16	20	26	32
Changes in Discretionary Spending										
Agency Costs for FEHBP Benefits (active employees)	91	96	102	109	117	125	134	143	152	162
Agency Costs for FECA	1	1	3	3	3	3	3	3	3	3
Total, Discretionary Spending	92	97	105	112	120	128	137	146	155	165

NOTES: FEHBP = Federal Employees Health Benefits Program. FECA = Federal Employees Compensation Act. Components may not sum to totals because of rounding. This estimate assumes that the bill will be enacted by October 2003. The estimate does not reflect changes to the Internal Revenue Code; those effects would have to be estimated by JCT.

* = Less than $500,000.

a. The outlays shown are net of receipts from federal agencies.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 2426 will be enacted by the end of fiscal year 2003 and that domestic partners would be eligible to begin receiving benefits in

November 2003. CBO estimates that about 2 percent of federal employees would elect to provide health care and retirement benefits for a domestic partner if given the opportunity. Approximately 83 percent of the costs would come from partners in opposite-sex partnerships and approximately 17 percent of costs derive from partners in same-sex partnerships. These figures are based on information from state and local governments as well as corporations that have adopted similar policies. In addition, domestic partners of workers who retire after the bill goes into effect would be eligible to opt for survivor annuity coverage, as well as retiree health care benefits.

Direct Spending

Federal Employees Health Benefits Program (FEHBP) for Future Retirees. H.R. 2426 would extend eligibility for health benefits to the domestic partners of retiring federal employees. An employee who retires after enactment of the bill would be allowed to maintain family coverage for his or her domestic partner. Unlike premiums for current workers, the government's share of health care premiums for retirees is classified as direct spending. For each year of the 2004-2013 period, CBO projects that approximately 1,000 additional family coverage policies would be added to the FEHBP by retiring non-Postal Service workers choosing to cover domestic partners. As a result, direct spending would increase by $71 million over the next five years and by $319 million over the next 10 years. The costs associated with providing benefits to the domestic partners of both active and retiring Postal Service workers are discussed below.

Federal Employees' Compensation Act (FECA) Benefits. FECA provides compensation to federal civilian employees for disability due to personal injury sustained while in the performance of duty. Married workers currently receive slightly higher FECA benefits for wage replacement than do single workers. Additionally, if an employee dies of an employment-related injury or disease, his or her spouse receives monthly compensation equal to 50 percent of the deceased employee's salary. CBO projects that H.R. 2426, if enacted, would provide FECA benefits to approximately 1,200 domestic partners of non-postal federal employees each year. Additional costs would total $35 million; agencies would have to cover those costs over time from appropriated funds (see below). Because increases in agency contributions would lag behind the increased costs, there would be a net increase in direct spending of $4 million over the 2004-2013 period.

Postal Service Employees. Postal Service employees would also be eligible for domestic partner coverage under H.R. 2426. CBO estimates that providing health benefits to the domestic partners of active postal workers would result in about 11,000 postal employees moving from individual to family coverage plans. Additionally, CBO anticipates that approximately 500 of the postal workers who would retire each year would maintain FEHB coverage for their partners. Together, these benefits would cost $311 million over the 2004-2008 period and $814 million over the 2004-2013 period. Additionally, extending FECA benefits to Postal Service employees would cost $15 million over the next five years and $30 million over the next 10 years.

The operations of the Postal Service are classified as off-budget (like Social Security), although the total federal budget records the agency's net spending (outlays less offsetting collections). The Postal Service's mandate requires it to set postage rates to cover its operating expenses, and thus it would be expected to cover 100 percent of the increased costs associated with H.R. 2426 from postage receipts. However, the Postal Service Retirement System Funding Reform Act of 2003 (Public Law 108-18) effectively froze postage rate increases until 2006. Therefore, for the 2004-2005 period, the increased costs resulting from H.R. 2426 would not be offset by higher postal receipts. Beginning in 2006, the Postal Service would be able to raise postage rates to account for its increased costs. As a result, CBO estimates that extending FEHBP and FECA benefits to the domestic partners of Postal Service workers would increase off-budget direct spending by $113 million over the 2004-2005 period and would have no net effect after that.

Survivor Annuities. Under current law, a federal employee who is eligible to receive retirement benefits may elect to provide his or her spouse with a survivor annuity by reducing the value of the employee's annuity. Participants in the Civil Service Retirement System (CSRS) face different reductions and survivor annuity benefit levels than participants in the Federal Employees' Retirement System (FERS). Under both plans, those who elect survivor benefits face a reduction in their current annuity of between 5 percent and 10 percent.

Under H.R. 2426, federal employees who retire would be able to choose to reduce the value of their own annuities in order to provide survivor annuities for their domestic partners. CBO estimates that 85 percent of federal employees with domestic partners would elect survivor benefits if given the opportunity. On that basis, CBO projects that approximately 2,000 newly retired federal employees each year would add survivor annuities for their domestic partners and thus collect smaller annuities. However, some of these individuals would die and their partners would begin collecting survivor benefits. Over the next 10 years, the savings from the reduction in retirees' annuities would outweigh the additional costs for survivors' annuities. CBO estimates that direct spending would decrease by $51 million over the 2004-2008 period and by $194 million over the 2004-2013 period.

Coverage of Current Retirees. H.R. 2426, as introduced, would extend domestic partner benefits to all current federal retirees, as well as active workers. However, the sponsor indicated to CBO that this was not the intent of H.R. 2426 and requested that CBO estimate the costs of the bill under the assumption that it would be changed to include only active workers and those who retire after the bill's enactment. The above estimate reflects that assumed change. If all current retirees were to receive the same benefits that new retirees would receive under H.R. 2426, the cost of the bill would increase by an additional $448 million over the 2004-2008 period and $1.4 billion over the 2004-2013 period.

Discretionary Spending

Health Benefits for Active Employees. H.R. 2426 would allow federal employees to add domestic partners to their health insurance policies. CBO estimates that about 80 percent of employees who add a domestic partner would switch from individual coverage to family coverage. Federal agencies pay about 72 percent of health-care premiums for active employees; thus, as premiums rise, so do agency contributions. In 2004 family coverage policies for active employees are projected to cost the federal government approximately $3,800 more than individual coverage policies. CBO estimates that providing additional family coverage policies to about 24,000 non-postal employees who would elect domestic partner coverage would increase spending subject to appropriation by $515 million over the 2004-2008 period and by $1.2 billion over the 2004-2013 period.

Federal Employees' Compensation Act Benefits. As discussed under the direct spending section, this bill would result in increased spending for federal workers' compensation. The reimbursement of FECA expenses paid by the Department of Labor comes from discretionary salary and expense accounts of federal agencies. Because these expenses are ultimately borne by the employing agency, CBO estimates discretionary spending would increase by $11 million over the 2004-2008 period and by $26 million over the 2004-2013 period to pay for these benefits.

Federal Employees' Group Life Insurance (FEGLI) Benefits. Under current law, the federal government pays one-third of basic life insurance premiums and employees pay two-thirds. Optional coverage that provides benefits above the basic level is paid for entirely by the employee. H.R. 2426 would allow federal employees to purchase Option C coverage, which would insure a domestic partner for up to $25,000. The premium for this option is actuarially sound; over time, premiums paid in to the account equal the payouts from the account. While the cash flow in any given year could be positive or negative, the overall impact on the federal budget would be negligible.

Tax Changes

H.R. 2426 contains provisions that would amend the Internal Revenue Code of 1986. Those changes would likely have tax implications that CBO does not estimate. The Joint Committee on Taxation normally supplies the estimate of the tax effects of legislation.

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