



United States
General Accounting Office
Washington, D.C. 20548

Health, Education and Human Services Division

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June 15, 1994

The Honorable Tom Harkin
Chairman
The Honorable Arlen Specter
Ranking Minority Member
Subcommittee on Labor,
Health and Human Services,
Education and Related Agencies
Committee on Appropriations
United States Senate

In November 1993, the President released his detailed legislative proposal for national health care reform. The proposed Health Security Act (HSA) is a comprehensive plan to provide universal health insurance for a broad range of services. The President's 1995 budget request to the Congress includes a \$5.4 billion estimate of the federal expense to start up and administer the proposed new health care system over 6 years.

Concerned about how the administrative costs of implementing the proposed new health care system would be funded, given the limit Congress placed on discretionary appropriations,¹ you asked that we determine what justifications the administration used to support the federal administrative cost estimates that appear in the President's 1995 budget. Specifically, you asked that we identify the federal administrative functions that were considered and determine the underlying assumptions used to derive the estimated costs. On April 29, 1994, we briefed your staffs on the results of our work.

¹The Budget Enforcement Act of 1990 (BEA) contains procedures designed to enforce the deficit reduction agreement. The act divides the budget into two mutually exclusive categories: (1) discretionary programs and (2) direct spending. The act also provides pay-as-you-go procedures for legislation affecting direct spending or receipts. For 1991 through 1995, among other provisions, the act limits discretionary spending. The Omnibus Budget Reconciliation Act of 1993 extended the discretionary spending limits through 1998.

In summary, the Office of Management and Budget (OMB) identified the federal functions required to implement the proposed HSA and estimated the federal administrative costs of starting up and supporting these functions over 6 years. OMB staff said that pricing out the proposed HSA was difficult. The staff attributed the difficulty in estimating the federal administrative costs to primarily two factors: (1) decisions had not been made about what entity would carry out some of the functions and (2) the staff was given a very short time frame to develop the estimates. The staff said that they did not document the assumptions they used and, in our discussions with them, they would not fully discuss the details of their estimating strategy. As a result, we could not reconstruct the information for you.

FEDERAL ADMINISTRATIVE
COSTS TO IMPLEMENT HSA

OMB was responsible for identifying the federal administrative functions to implement the proposed HSA and for developing the administrative cost estimates that appear in the President's fiscal year 1995 budget. Normally, OMB does not independently prepare cost estimates for proposed legislation.² In this instance, however, OMB's budget examiners, not the executive branch departments or agencies, estimated the federal administrative costs for the administration. Moreover, while these estimates of federal costs appeared in the President's fiscal year 1995 budget, preparing them was conducted outside OMB's normal budget estimating

²OMB is responsible for cost estimates used in the President's budget and for enacted legislation to meet the requirements of BEA. OMB is also responsible for pricing legislative proposals on behalf of the administration. However, in fulfilling these responsibilities, OMB generally relies on executive branch agencies to prepare initial cost estimates. OMB budget examiners then review and modify these estimates as needed.

processes.³ OMB staff stated that they were asked to estimate the cost of the proposed bill in a very short time frame. Also, there was some uncertainty about whether some of the functions under the proposed new health care system would be carried out by the federal government, the states, or the proposed alliances. OMB staff stressed that these factors made estimating the federal administrative costs very difficult.

Functions Identified and Annual
Costs Estimated for 6 Years

OMB staff identified the specific detailed federal administrative functions required under HSA and estimated the implementation cost by these functions rather than by a department or other entity such as the National Health Board (NHB) that would be responsible for the function. OMB did not provide cost estimates for each detailed federal administrative function. Instead, OMB grouped the detailed administrative functions and provided us annual federal cost estimates by four functional categories: (1) Information Systems and Quality Assurance, (2) Monitoring of States and Alliances, (3) Program Oversight and Financial Management, and (4) Transition to the New System. The estimates are of new or add-on costs. Table 1 shows, by these four functional categories, OMB's estimates of the federal administrative costs for implementing HSA over 6 years. Estimates of federal administrative costs for 1995 through the year 2000 totaled \$5.4 billion. OMB staff did not determine federal full-time-equivalent employee requirements for HSA implementation.

³Under the normal executive budget formulation process, beginning in the fall, OMB works closely with agencies to prepare cost estimates of agency activities to be incorporated in the President's budget. As agencies prepare their budgets for submission to OMB, they maintain continuing contact with OMB budget examiners. OMB also provides agencies detailed instructions for preparing submissions through Circular A-11. This process is more fully described in appendix I of A Glossary of Terms Used in the Federal Budget Process (GAO/AFMD-2.1.1).

Table 1: Proposed Health Security Act--OMB's Administrative Cost Estimates for Federal Functions (Dollars in millions)

Functional Categories	FY95	FY96	FY97	FY98	FY99	FY00	1995-2000
Information Systems and Quality Assurance ^a	\$ 915	\$ 95	\$ 94	\$ 81	\$ 81	\$ 81	\$1,347
Monitoring of States and Alliances ^b	40	92	174	241	272	279	1,098
Program Oversight and Financial Management ^c	77	178	194	226	226	230	1,131
Transition to the New System ^d	247	527	726	353	7	8	1,868
Total, HSA start-up and administration	\$1,279	\$892	\$1,188	\$901	\$586	\$598	\$5,444

Sources: Analytic Perspectives, Budget of the United States Government, fiscal year 1995; and OMB staff.

^aHSA specifies that the federal government would help develop and maintain a health information network; establish a National Quality Management Program; provide technical assistance to alliances, states, and health plans; and set standards to implement privacy protections, malpractice reforms, and administrative simplification measures.

^bUnder HSA, the federal government would oversee key state and alliance functions. The federal government would monitor alliance financial operations (including audits of alliances); ensure that plans and alliances conform to applicable regulatory requirements; make certain that employers make premium contributions and provide insurance through qualified plans; oversee the administration of premium targets; monitor and audit employer subsidies; and back up state guarantee funds.

^cFederal responsibilities under HSA would include development of rules and standards for and overall financial oversight of the new system. The pricing reflects several oversight functions, including update of the comprehensive benefits package, examination of new drug prices, development of rules for health plans, monitoring of alliance grievance procedures, development of a risk adjustment system, monitoring health care prices and expenditures, and supporting antitrust reform and fraud and abuse prevention activities.

^dThe federal government would help states make the transition to the new system. The federal government would administer planning and start-up grants, issue standards for health plans during the transition, process state waivers, and administer a national risk pool for the uninsured during the period prior to phase-in of universal coverage.

In discussions with us, OMB staff added the following qualifiers to the federal cost estimates they developed for HSA start-up and administration:

- Administrative costs associated with providing health security cards are not included in the estimates because OMB staff assumed this would be an alliance function rather than a federal function.
- Start-up costs are reflected in the first 2 years (1995 and 1996).

- The \$1.279 billion estimate for 1995 costs was designated PAYGO.⁴ OMB staff told us that this was done because the estimated costs would exceed the discretionary spending cap for that year. The administration suggested that revenue from a tobacco tax would be used to fund these costs.

No Record of Estimating Assumptions

OMB staff told us that they did not document the assumptions they used to estimate federal costs for HSA start-up and administration, and they would not reconstruct the information for us. In discussions with us, OMB staff provided sketchy information about the assumptions used to cost-out the detailed federal administrative functions they identified in the proposed HSA. In some cases, they extrapolated from existing functions. Where they extrapolated or used proxy measures, however, they did not disclose any dollar values associated with their analyses. Furthermore, they did not provide any information on analyses they conducted that showed the difference in magnitude, if any, between the proxies they used and the proposed federal administrative functions. OMB staff provided some information about their estimating assumptions and the rationale they used in costing out the federal administrative functions for implementing the proposed HSA (see enclosure).

In conclusion, OMB staff did not provide us complete information about the underlying assumptions they used to estimate the federal costs for HSA start-up and administration. The staff stated that they did not follow their normal budget estimating process. They made the budget estimates in a short time frame and based them on proposed legislation that did not have responsibilities for some of the functions clearly defined. OMB staff said they did not document their estimating assumptions and were reluctant to discuss the details of their work.

⁴Under BEA, PAYGO requirements stipulate that any new legislation that increases direct (mandatory) spending or decreases receipts be deficit neutral (that is, not increase the deficit). For discretionary programs, the act establishes discretionary spending caps or limits. These measures are designed to reduce or limit the growth in the federal budget deficit. BEA rules require that new accounts or activities be categorized in consultation with the House and Senate Committees on Appropriations and the Budget.

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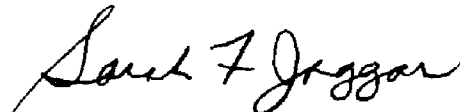
To identify the federal functions and determine the estimating assumptions the administration used, we met with staff from OMB and the Department of Health and Human Services (HHS).⁵ HHS officials told us they had no involvement in estimating the federal costs and did not know what estimating assumptions OMB used. As agreed with your staffs, we did not attempt independently to estimate the federal costs of administering the proposed new system or measure the impact of the expenditures on overall health care spending. Also, we did not evaluate the appropriateness of the estimating assumptions used. We conducted our work from February to May 1994 in accordance with generally accepted government auditing standards.

OMB officials reviewed a draft of this correspondence and offered some technical changes. We made the technical changes as appropriate.

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We are sending copies of this correspondence to the Director, Office of Management and Budget. We will also make copies available to others on request.

Please contact James O. McClyde, Assistant Director, at (202) 512-7119, if you have any questions about this letter.



for Mark V. Nadel
Associate Director, National and
Public Health Issues

Enclosure

⁵We interviewed officials from HHS' Offices of the Assistant Secretary for Program Evaluation and Assistant Secretary for Management and Budget.

PROPOSED HEALTH SECURITY ACT--INFORMATION OMB PROVIDED ABOUT
ESTIMATING ASSUMPTIONS THEY USED TO COST OUT FEDERAL
ADMINISTRATIVE FUNCTIONS
(by functional category)

- Information Systems and Quality Assurance
 - About 60 percent of 1995 costs is for start-up of this function.
 - Standard-setting would be a major part of this function
 - The federal government would not build new data systems because existing systems can be expanded.
 - Private sector data systems that could be used include Blue Cross and Blue Shield's electronic claims system.
 - Analogues considered in pricing this function were resources of the Health Care Financing Administration (information systems) and the Social Security Administration (system resources), and data from the Agency for Health Care Policy and Research (quality management data) and the Aid to Families With Dependent Children program (quality control data).
 - NHB will probably contract out any additional work it is responsible for under this function.
 - DOL's responsibilities would be very small.
- Monitoring of States and Alliances
 - About 50 to 75 percent of 1995 costs would be for standard-setting.
 - Most of the total cost would be for federal staff to monitor alliances and employers.
 - It is not very likely that DOL would have to take over corporate alliances, so a very small cost was included for readiness.
- Program Oversight and Financial Management
 - About 10 percent or less of 1995 costs would be for start-up.
 - Many main NHB functions would be included.⁶
 - Some standard-setting would be included along with ongoing activities such as updating the benefits package.

⁶OMB did not use analogues/proxies for estimating NHB costs. They assumed a staff of about 30 people and one auditor per alliance for financial monitoring. OMB officials talked about the Federal Reserve Board and the Securities Exchange Commission as possible models for costing-out the NHB financial management responsibilities.

ENCLOSURE

ENCLOSURE

- Most of the costs would be for federal staff, including a small HHS staff to monitor health care prices and expenditures⁷ and the HHS Inspector General's office to conduct fraud and abuse reviews.
- It is not very likely that HHS would have to take over alliances, so a small cost was included for readiness.
- Transition to the New System
 - About 90 percent of the costs would be associated with setting up and administering a national risk pool and for grant administration.

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⁷The Health Care Financing Administration already publishes some health care price data.