Congressional Budget Office
Cost Estimate

August 20, 2024

At a Glance

S. 4035, FEHB Protection Act

As ordered reported by the Senate Committee on Homeland Security and Governmental Affairs on May 15, 2024

By Fiscal Year, Millions of Dollars	2024	2024-2029	2024-2034
Direct Spending (Outlays)	0	0	0
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	0	0
Spending Subject to Appropriation (Outlays)	0	-945	-3,793

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2035?	No	Statutory pay-as-you-go procedures apply?	No
		Mandate Effects	
Increases *on-budget deficits* in any of the four consecutive 10-year periods beginning in 2035?	No	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

The bill would

- Require agencies to verify the eligibility of dependents enrolled in the Federal Employees Health Benefits program when the employee or annuitant starts or changes a dependent's enrollment
- Require the Office of Personnel Management to audit dependents' enrollment in the program
- Expand fraud risk assessments of the program to include information on ineligible enrollees
- Deny enrollment to ineligible dependents or disenroll them from the program

Estimated budgetary effects would mainly stem from

- Conducting an enrollment audit of the program
- Disenrolling ineligible dependents

Areas of significant uncertainty include

- Predicting the number and timing of dependents who would be found ineligible
- Projecting the reductions in spending that would be generated by disenrollment of ineligible dependents

Detailed estimate begins on the next page.

See also
CBO's Cost Estimates Explained, *CBO Describes Its Cost-Estimating Process*, *Glossary*

Bill Summary

S. 4035 would require federal agencies to verify the eligibility of enrollees' dependents to participate in the Federal Employees Health Benefits (FEHB) program. Verification would occur when the employee or annuitant starts or changes a dependent's enrollment—for example, during open season, because of a change in employment, or in response to a qualifying life event, such as a marriage or the birth or adoption of a child. Within four years of enactment, the bill would require the Office of Personnel Management (OPM) to conduct and periodically report to the Congress on, a verification audit of all dependents enrolled in the program. Dependents found to be ineligible would be denied enrollment or disenrolled. The bill also would expand OPM's annual assessment of fraud risk to include a risk assessment of ineligible enrollees.

Estimated Federal Costs

The estimated budgetary effect of S. 4035 is shown in Table 1. The costs of the legislation fall within budget functions 370 (commerce and housing credit), 550 (health), and 800 (general government).

Basis of Estimate

For this estimate, CBO assumes that the legislation will be enacted near the end of fiscal year 2024 and that the verification audit would be conducted over the 2026-2031 period.

Background

The FEHB program provides health insurance for federal workers and annuitants, including current and retired employees of the Postal Service, and for their dependents and survivors. Under the program, the government covers up to 75 percent of the cost of enrollees' premiums for active employees and annuitants.[1] About 8 million people are projected to enroll in the FEHB program in 2025, with government contributions estimated to total about $50 billion in that year. The estimated average annual cost to include a dependent in the program is $6,500. Spending on premiums for federal annuitants and Postal Service employees is classified in the budget as direct spending; spending for federal employees is classified as spending subject to appropriation.

Agencies currently verify dependents' eligibility at initial enrollment or when employees change their coverage at the time of a qualifying life event. OPM requires federal agencies to verify 10 percent of enrollment elections during open season. However, the Government

1. The bill's requirements also would apply to the Postal Service Health Benefits Program, a separate program within FEHB. Government contributions for participants in the Postal Service's program are determined by a collective bargaining agreement.

Accountability Office indicates that ineligible dependents currently are enrolled and that additional measures could be taken to reduce fraud in the program.[2]

Spending Subject to Appropriation

CBO estimates that implementing S. 4035 would result in disenrolling or denying enrollment to dependents in the FEHB program and thus would reduce federal costs, on net, by about $1 billion over the 2024-2029 period and by about $4 billion over the 2024-2034 period. Any reduction in discretionary spending would be subject to reductions in appropriations by the estimated amounts. Those net amounts include administrative costs that would be more than offset by reductions in the federal share of employees' premiums because of disenrollments from the FEHB program.

Table 1.
Estimated Changes in Spending Subject to Appropriation Under S. 4035

	By Fiscal Year, Millions of Dollars												
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2024-2029	2024-2034
Administrative Costs													
Estimated Authorization	0	66	0	0	0	0	0	0	0	0	0	66	66
Estimated Outlays	0	*	6	12	11	12	11	7	2	2	3	41	66
Disenrollment Effects													
Estimated Authorization	0	0	-65	-191	-306	-424	-545	-601	-588	-576	-563	-986	-3,859
Estimated Outlays	0	0	-65	-191	-306	-424	-545	-601	-588	-576	-563	-986	-3,859
Total Changes													
Estimated Authorization	0	66	-65	-191	-306	-424	-545	-601	-588	-576	-563	-920	-3,793
Estimated Outlays	0	*	-59	-179	-295	-412	-534	-594	-586	-574	-560	-945	-3,793
Memorandum: Contingent and Nonscoreable Changes in Direct Spending[a]													
Direct Spending	0	0	-38	-110	-174	-240	-307	-338	-331	-325	-318	-562	-2,181
On-Budget	*0*	*0*	*-36*	*-105*	*-169*	*-234*	*-301*	*-332*	*-325*	*-318*	*-311*	*-544*	*-2,131*
Off-Budget[b]	*0*	*0*	*-2*	*-5*	*-5*	*-6*	*-6*	*-6*	*-6*	*-7*	*-7*	*-18*	*-50*

* = between zero and $500,000

a. Assuming that appropriation amounts consistent with the bill are provided in subsequent legislation, CBO estimates that disenrolling ineligible dependents would reduce direct spending. Under the scorekeeping guidelines agreed to by the legislative and executive branches, the direct spending amounts also would be excluded from the effects attributed to subsequent legislation providing funding for the audit. Those amounts would be reflected in CBO's baseline budget projections after the bill's enactment.

b. Includes estimated savings for the Postal Service, whose cash flows are classified as off-budget.

2. Government Accountability Office, *Federal Employees Health Benefits Program: Additional Monitoring Mechanisms and Fraud Risk Assessment Needed to Better Ensure Member Eligibility,* GAO-23-105222 (January 2023), www.gao.gov/products/gao-23-105222.

Administrative Costs. CBO anticipates that OPM would implement the bill's auditing requirements using contracts with private-sector entities. Given the time needed and the complexity of such an undertaking, CBO expects that the audit would begin in 2026 and continue until 2031. CBO estimates that the cost of the audit and other verifications would total $66 million over the 2024-2034 period. Any spending would be subject to the provision of sufficient appropriations in subsequent legislation.

Using information from state governments and large private-sector employers, CBO estimates that the cost to audit the enrollment of about 4 million dependents would be about $13 per enrollee. On that basis, the verification audit would cost $50 million over the 2024-2034 period. CBO expects that OPM also would need the equivalent of two full-time employees to oversee the audit and fulfill the reporting requirements, at a cost of about $3 million over the 2024-2034 period.

Under OPM's current guidance, only 10 percent of enrollment changes made during open season are subject to verification. CBO estimates that, under the bill, verifying the other 90 percent would require federal agencies to incur $12 million in costs over the 2024-2034 period for salaries and expenses. In addition, about $1 million would be needed over the same period for additional staff to expand fraud risk assessments.

S. 4035 would largely codify the current practice of verifying enrollees' eligibility at the time of initial enrollment or when changes occur as a result of a qualifying life event. CBO estimates that implementing that requirement would have no budgetary effect.

Disenrollment Effects. CBO expects that, contingent on subsequent appropriations for an audit and for other activities required under the bill, ineligible dependents would be denied enrollment or removed from the FEHB program. As a result, implementing the bill would reduce spending subject to appropriation for the FEHB by an estimated $3.9 billion over the 2024-2034 period. CBO expects that the decline in enrollment would accelerate over the 2026-2031 period as the audit proceeds.

Using data on the composition of the FEHB enrollment, along with information about the share of dependents who have been removed as a result of other verification audits, CBO expects that implementing the bill would cause enrollment to decline by about 100,000 people, on average, in each year over the 2025-2034 period. Verifications of eligibility during open season would cause a decline of about 10,000 people, on average, in each year over the same period.

Contingent and Nonscoreable Changes in Direct Spending. Assuming that subsequent legislation provides appropriations that are sufficient and consistent with the bill's provisions, CBO estimates that about 35 percent of the people who were disenrolled would be ineligible dependents of federal annuitants and Postal Service employees. Their disenrollment would reduce direct spending by $2.1 billion over the 2024-2034 period (see the memorandum in Table 1).

That amount includes a $50 million reduction in off-budget spending, which is how the cash flows of the Postal Service are categorized in the federal budget. Under the scorekeeping guidelines agreed to by the legislative and executive branches, those reductions in direct spending would not be included in effects attributed to subsequent legislation that provided funding for the audit; however, they would be reflected in CBO's baseline budget projections after enactment.[3]

Uncertainty

CBO's estimate of the budgetary effects of S. 4035 is subject to significant uncertainty because no similar verification audit of the FEHB program has been undertaken. CBO projected the cost of an audit, the number of dependents who would be found ineligible, and the number disenrolled, but the actual numbers could be higher or lower than estimated. Moreover, given the inherent uncertainty concerning patterns of health care use by people who would newly be found ineligible, the reductions in spending that would be generated by an audit also could be larger or smaller than estimated here.

Mandates

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

Previous CBO Estimate

On August 16, 2024, CBO transmitted a cost estimate for H.R. 7868, the FEHB Protection Act of 2024, as ordered reported by the House Committee on Homeland Security and Government Affairs on April 10, 2024. The two bills are similar, and CBO's estimates of both bills are the same.

3. For more information on the guidelines, see Congressional Budget Office, *CBO Explains Budgetary Scorekeeping Guidelines* (January 2021), www.cbo.gov/publication/56507.

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