

**TECHNICAL EXPLANATION OF S. 2325
(FAMILY SECURITY INITIATIVES ACT
OF 1992)**

**AS REPORTED BY THE SENATE FINANCE
COMMITTEE**

**COMMITTEE ON FINANCE
UNITED STATES SENATE**



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CONTENTS

	Page
I. Legislative Background	1
II. Explanation of Provisions	2
1. Simplification and Expansion of the Earned Income Tax Credit (Sec. 101)	2
2. Increase Base Tax Rate on Ozone-Depleting Chemicals (Sec. 102)	3
3. Medicare Preventive Benefits (Secs. 201-203)	5
4. Limit Deduction for Executive Compensation (Sec. 103)	6
5. Retiree Health Care for Coal Miners (Secs. 301-303)	8
III. Budget Effects of the Bill	9
IV. Regulatory Impact of the Bill and Other Matters To Be Discussed Under Senate Rules	11
V. Changes in Existing Law Made by the Bill	17

I. LEGISLATIVE BACKGROUND

The bill ("Family Security Initiatives Act of 1992") was ordered favorably reported by the Committee on Finance on March 3, 1992. The bill includes seven provisions which are deficit neutral in fiscal year 1992 and over the fiscal year 1992-1996 period: (1) simplification and expansion of the earned income credit (Sec. 101); (2) increase in excise tax on ozone-depleting chemicals (Sec. 102); (3) Medicare coverage of certain immunizations (Sec. 201); (4) Medicare coverage of well-child care (Sec. 202); (5) Medicare financing of additional benefits (Sec. 203); (6) disallowance of deduction for executive compensation in excess of \$1 million (Sec. 103); and (7) health care for coal miners (Secs. 301-303).

II. EXPLANATION OF PROVISIONS

1. Simplification and Expansion of Earned Income Tax Credit (sec. 101 of the bill and sec. 32 of the Code)

Present Law

Eligible low-income workers are able to claim a refundable earned income tax credit (EITC) of up to 17.6 percent (18.4 percent for taxpayers with more than one qualifying child) of the first \$7,520 of earned income for 1992. The maximum amount of credit for 1992 is \$1,324 (\$1,384 for taxpayers with more than one qualifying child). This maximum credit is reduced by 12.57 percent (13.14 percent for taxpayers with more than one qualifying child) of earned income (or adjusted gross income, if greater) in excess of \$11,840. The EITC is totally phased out for workers with earned income (or adjusted gross income, if greater) over \$22,370. The maximum amount of earned income on which the EITC may be claimed and the income threshold for the phaseout of the EITC are indexed for inflation. Earned income consists of wages, salaries, other employee compensation, and net self-employment income.

The credit rates for the EITC change over time under present law, as shown in the following table:

Year	One qualifying child—		Two or more qualifying children—	
	Credit rate	Phaseout rate	Credit rate	Phaseout rate
1992.....	17.6	12.57	18.4	13.14
1993.....	18.5	13.21	19.5	13.93
1994 and after	23.0	16.43	25.0	17.86

A supplemental young child credit is available to taxpayers with qualifying children under the age of one year. This young child credit rate is 5 percent and the phase-out rate is 3.57 percent. It is computed on the same income base as the ordinary EITC. The maximum supplemental young child credit for 1992 is \$376. If a taxpayer claims the supplemental young child credit, the child that qualifies the taxpayer for such credit is not a qualifying individual for purposes of the dependent care tax credit (sec. 21).

A supplemental health insurance credit is available to taxpayers who provide health insurance coverage for their qualifying children. This health insurance credit rate is 6 percent and the phase-out rate is 4.285 percent. It is computed on the same income base as the ordinary EITC, but the credit claimed cannot exceed the out-

of-pocket cost of the health insurance coverage. In addition, the taxpayer is denied an itemized deduction for medical expenses of qualifying insurance coverage up to the amount of credit claimed. The maximum supplemental health insurance credit for 1992 is \$451.

Reasons for Change

Providing a higher basic EITC credit rate to taxpayers with two or more qualifying children recognizes the equity of providing larger tax benefits to those with a lesser ability to pay taxes. A larger gap between the two basic credit rates than currently exists is appropriate in light of the larger financial resources necessary to maintain larger families.

The committee recognizes the complexity faced by taxpayers in claiming the present law EITC. Repeal of the rules regarding interactions between the supplemental health insurance credit and deductions for medical expenses should lessen the compliance burden for taxpayers claiming the EITC.

Explanation of Provision

The bill increases the basic EITC rate for taxpayers with two or more qualifying children as shown in the following table:

Year	One qualifying child—		Two or more qualifying children—	
	Credit rate	Phaseout rate	Credit rate	Phaseout rate
1992.....	17.6	12.57	20.15	14.39
1993.....	18.5	13.21	21.25	15.17
1994 and after	23.0	16.43	26.75	19.10

The bill permits taxpayers to include all health insurance expenses as medical expenses, subject to the 7.5 percent of adjusted gross income floor on deductible medical expenses, regardless of whether these expenses had been used to claim the health insurance component of the EITC. The allowable deduction for health insurance costs and to use the full amount of these expenses that are related to coverage of dependent children to claim the health insurance component of the EITC.

The bill also repeals the supplemental young child credit.

Effective Date

The provision is effective for taxable years beginning after December 31, 1991.

2. Increase Base Tax Rate on Ozone-Depleting Chemicals (sec. 102 of the bill and secs. 4681 and 4682 of the Code)

An excise tax is imposed on certain ozone-depleting chemicals. The amount of tax generally is determined by multiplying the base

tax rate applicable for the calendar year by an ozone-depleting factor assigned to the chemical. Certain chemicals are subject to a reduced rate of tax for years prior to 1994.

Between 1992 and 1995 there are two base tax rates applicable, depending upon whether the chemicals were initially listed in the Omnibus Reconciliation Act of 1989 or whether they were newly listed in the Omnibus Reconciliation Act of 1990. The base tax rate applicable to initially listed chemicals is \$1.67 per pound for 1992, \$2.65 per pound for 1993 and 1994, and an additional 45 cents per pound per year for each year thereafter. The base tax rate applicable to newly listed chemicals is \$1.37 per pound for 1992, \$1.67 per pound for 1993, \$3.00 per pound for 1994, \$3.10 per pound for 1995, and an additional 45 cents per pound per year for each year thereafter.

The initially listed chemicals are CFC-11, CFC-12, CFC-113, CFC-114, CFC-115, Halon-1211, Halon-1301, Halon-2402. The newly listed chemicals are carbon tetrachloride, methyl chloroform, CFC-13, CFC-111, CFC-112, CFC-211, CFC-212, CFC-213, CFC-214, CFC-215, CFC-216, CFC-217.

Reasons for Change

On February 11, 1992, President Bush announced that in response to recent scientific findings, the United States will unilaterally accelerate the phaseout of substances that deplete the Earth's ozone layer. The President announced that the production of major CFCs, halons, methyl chloroform, and carbon tetrachloride generally will be eliminated by December 31, 1995. The President noted that the tax on ozone depleting chemicals has helped the United States achieve a more rapid reduction in use of such chemicals than that called for under the Montreal protocol.

In light of the President's action and recognition of the importance of the tax on ozone depleting chemicals as an economic incentive, the committee believes it is important to enhance the conservation effort and speed the search for safe substitutes by increasing the base rate of tax on ozone depleting chemicals. The committee believes an increase in the base rate of tax will help market forces to aid the work of finding substitutes and fostering reduced use of ozone-depleting chemicals.

Explanation of Provision

The bill increases and applies the same rate base tax rate to both initially listed chemicals and newly listed chemicals. The new base tax rate is \$1.85 per pound for 1992, \$2.75 per pound in 1993, \$3.65 per pound in 1994, and \$4.55 per pound in 1995. For years after 1995, the base tax amount will increase (as under present law) by 45 cents per pound per year.

In addition, the bill reduces the applicable percentage used in the computation of the tax applied to chemicals used in rigid form insulation in 1992 and 1993. The provision reduces the applicable percentage from 15 percent to 13.5 percent for 1992, and reduces the applicable percentage from 10 percent to 9.6 percent for 1993. The effect of this provision is to continue present-law rates on these chemicals for 1992 and 1993.

Effective Date

The provision is effective for taxable chemicals sold or used on or after July 1, 1992. Floor stocks taxes are imposed on taxed chemicals held on the effective dates of changes in the base tax rate.

3. Medicare Preventive Benefits (secs. 201-203 of the bill)

a. Coverage of certain immunizations

Present law

Medicare generally covers only those health care services that are reasonable and necessary "for the diagnosis and treatment of illness or injury." Thus, Medicare will not pay for services, such as immunizations, that avert (rather than treat) an illness, unless the patient has been directly exposed to the illness. Although there are exceptions to this rule, most of them are the result of legislation extending Medicare coverage to a particular item or service, such as the hepatitis B and pneumococcal vaccines.

A Medicare demonstration project under which participants receive annual influenza vaccinations expires September 30, 1992. Under the project, there are State-wide sites in Tennessee, Virginia, Indiana, and Louisiana, as well smaller sites in Arizona, Massachusetts, Michigan, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, and Texas.

Explanation of Provision

The Committee bill would provide for coverage of annual influenza vaccinations and for tetanus-diphtheria boosters every 10 years. Effective for influenza vaccinations furnished on or after October 1, 1992, and for tetanus-diphtheria boosters furnished on or after January 1, 1993.

b. Coverage of well-child care

Present Law

As has been explained in the preceding item, the Medicare program generally does not cover preventive services.

Explanation of Provision

The Committee bill also would provide for coverage of pediatric well-child care, including appropriate immunizations, of children entitled to Medicare who have not attained 7 years of age. This would benefit the approximately 300 children who are entitled to Medicare because they have end-stage renal disease. Effective for services furnished on or after January 1, 1993.

c. Financing of new benefits

Present Law

Part B of Medicare is a voluntary program in which individuals who are aged, disabled, or have end-stage renal disease may enroll.

It is financed partly by premiums paid by enrollees and partly by general revenues of the Federal Government.

The monthly premium paid by enrollees is ordinarily based on a portion of projected program costs. The revised premium takes effect on January 1 of each year, which coincides with the date for the annual cost-of-living-adjustment (COLA) for Social Security cash benefits.

The part B premium generally is the lower of (1) an amount sufficient to cover one-half of the projected costs of the program for aged enrollees, or (2) the previous year's premium increased by the same percentage by which the COLA increases Social Security cash benefits.

From 1984 through 1990, the Secretary was required to set the part B premium at 25 percent of program costs. Based upon projections of 25 percent of program costs for the 1991-1995 period, the Omnibus Budget Reconciliation Act of 1990 specified the exact amounts of the part B premiums for these years in the statute. They are: \$29.90 for 1991; \$31.80 for 1992; \$36.60 for 1993; \$41.10 for 1994; and \$46.10 for 1995.

Unless superseded by future legislation, the general rules described above will be used to calculate the part B premium for 1996 and thereafter.

Explanation of Provision

The new preventive benefits would be financed in the same manner as other part B services currently are paid for, with beneficiaries paying 25 percent of the increased program costs attributable to the benefits. CBO estimates that this would increase monthly part B premiums 10 cents above current law levels for each of the years 1993 through 1997.

4. Limit Deduction for Executive Compensation (sec. 103 of the bill and sec. 162 of the Code)

Present Law

Under present law, a deduction is allowed in computing Federal income tax liability for ordinary and necessary expenses paid or incurred during the taxable year in carrying on a trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered.

Reasons for Change

The committee believes that compensation received by corporate executives in excess of \$1 million is per se unreasonable, and should not be deductible as an ordinary and necessary expense in carrying on a trade or business.

Explanation of Provision

For purposes of the regular income tax and the alternative minimum tax, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee is limited to no more than \$1 million per year. A covered employee means any employee

of the taxpayer who is an officer of the taxpayer, other than an employee-owner of a personal service corporation.

For purposes of the provision, an officer generally is an administrative executive who is in regular and continued service, regardless of the employee's job title. An employee who has the title of an officer but does not have the authority of an officer is not considered an officer. Similarly, an employee who does not have the title of an officer but has the authority of an officer is an officer for purposes of this rule.

An employee-owner of a personal service corporation is generally defined as under section 269A of the Code. Thus, a personal service corporation is a corporation the principal activity of which is the performance of personal services if the services are substantially performed by employee-owners. An employee-owner is any employee who owns more than 10 percent of the outstanding stock of the personal service corporation.

The term covered employee includes former employees. Thus, for example, the provision applies to compensation paid to former employees (e.g., nonqualified deferred compensation that is not paid until after termination of employment) as well as current employees.

The provision does not apply to compensation paid to employees who are not officers. Similarly, the provision does not apply to payments to partners in a partnership because they are not employees. The provision also does not apply to payments to independent contractors.

The deduction limitation generally applies to all remuneration for services, including the cash value of all remuneration (including benefits) paid in a medium other than cash. The limit does not apply to fringe benefits excludable from income under section 132, meals and lodging furnished on the business premises of the employer that are excludable under section 119, or any payment made to, or on behalf of, an employee or beneficiary (1) from or to a qualified pension, profit-sharing, or annuity plan, or (2) under a simplified employee pension (SEP) or tax-sheltered annuity (other than elective deferrals to such a plan or annuity).

The deduction limitation applies at a time the deduction would otherwise be taken.

Certain related employers are treated as a single employer for purposes of the provision. In particular, employers treated as a single employer under section 52(a) or (b) or section 414(m) or (n) are treated as a single employer. An employee who is an officer of any of the members of a group of employers treated as a single employer is treated as an officer of the single employer. Similarly, compensation from related employers is aggregated for purposes of the \$1 million limit.

It is intended that the Secretary will prevent avoidance of the rules through the use of arrangements other than employee-employer arrangements.

Effective Date

The provision is effective for taxable years beginning on or after January 1, 1992.

5. Health Benefits for Retired Coal Miners (secs. 301-303 of the bill and new secs. 9701-9724 of the Code)

Present Law

The United Mine Workers of America (UMWA) health and retirement funds were established in 1974 pursuant to an agreement between the UMWA and the Bituminous Coal Operator's Association (BCOA) to provide pension and health benefits to retired coal miners. The funds have been maintained for this purpose through a series of collective bargaining agreements. The funds created in 1974, were a restructuring of the original benefit fund, which was established in 1946.

The funds consists of four different plans, each of which is funded through a separate trust. The 1950 Pension Plan provides retirement benefits to miners who retired on or before December 31, 1975, and their beneficiaries. The 1950 Benefit Plan provides health benefits for retired mine workers who receive pensions from the 1950 Pension Plan and their dependents. The 1974 Benefit Plan provides health benefits to miners who retired after December 31, 1975. It also provides benefits to miners whose last employers are not longer in business or, in some cases, no longer signatory to the applicable bargaining agreement. These miners are generally referred to as "orphan" retirees.

Reasons for Change

The committee believes it is appropriate to provide a statutory means of financing the benefits of retired coal miners.

Explanation of Provision

The bill creates a Coal Industry Retiree Health Benefit Corporation (the Corporation), a government corporation, to provide retiree health benefits for certain retired mine workers (and their spouses and dependents)—generally retirees whose last employer is out of business or not currently paying for retiree health benefits. The Corporation's health plan is financed by a cents/hour tax on certain coal production, a per-ton tax on imported coal, and a per-participant tax on certain former signatories to bargaining agreements who were the last employer of someone covered under the Corporation plan. The bill also (1) creates a new fund (the United Mine Workers of America (UMWA) 1991 Benefit Fund) to provide retiree health benefits to retirees of current signatories to the UMWA agreements, and (2) authorizes the tax-free transfer of excess assets from UMWA pension trusts to the Corporation and the 1991 Benefit Fund.

Effective Date

Generally effective on the date of enactment.

III. BUDGET EFFECTS OF THE BILL

In compliance with paragraph 11(a) of Rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the estimated budget effects of the bill as reported by the Committee on Finance.

The budget effects of the bill for fiscal years 1992-1996 are shown in the following table:

Estimated Budget Effects of S. 2325 (Family Security Initiatives Act of 1992) as Reported by the Senate Finance Committee

Fiscal Years 1992-1996

[Billions of Dollars]

Item	Effective	1992	1993	1994	1995	1996	1992-96
1. Earned Income tax credit (EITC): ¹							
a. Repeal young child credit.....	1/1/92	(2)	0.3	0.3	0.3	0.3	1.1
b. EITC expansion and simplification	1/1/92	(3)	-0.5	-0.5	-0.5	-0.5	-2.1
2. Medicare prevention benefits ⁴	1/1/93	-0.1	-0.1	-0.1	-0.1	-0.3
3. Increase excise tax on ozone-depleting chemicals ⁵	7/1/92	(2)	(2)	0.4	0.6	0.3	1.4
4. Cap deduction for regular tax and AMT purposes for executive compensation at \$1 million	1/1/92	0.1	0.3	0.4	0.4	0.4	1.5
5. Health care for coal miners:							
a. Net revenue from labor and coal import taxes.....	4/1/92	0.1	0.2	0.2	0.2	0.2	0.9
b. Net outlays (health benefits less mandatory contributions).....	4/1/92	(3)	-0.2	-0.2	-0.2	-0.2	-0.9
Grand Totals		0.1	0.1	0.4	0.6	0.4	1.7

¹ Changes to the earned income credit will increase outlays by less than \$50 million in FY 1992, and by approximately \$0.2 billion in FY 1993 and in each fiscal year thereafter.

² Gain of less than \$50 million.

³ Loss of less than \$50 million.

⁴ Estimate for this provision provided by the Congressional Budget Office (CBO).

⁵ Tax is \$1.85 in 1992 (effective 7/1/92, \$2.75 in 1993, \$3.65 in 1994, \$4.55 in 1995, and (as scheduled under present law) increased by \$0.45 per year thereafter.

Notes: Details may not add to totals due to rounding.

Source: Joint Committee on Taxation, March 6, 1992.

IV. REGULATORY IMPACT AND OTHER MATTERS TO BE DISCUSSED UNDER SENATE RULES

A. Regulatory Impact

Pursuant to paragraph 11(b) of Rule XXVI of the Standing Rules of the Senate, the committee makes the following statement concerning the regulatory impact that might be incurred in carrying out the bill as reported by the Committee on Finance.

The bill will expand and simplify the earned income tax credit for working families. This will reduce the complexity of calculation on the tax return for those taxpayers eligible for the credit. The bill also includes certain Medicare-related provisions and premium changes, and health care provisions for coal miners. To make the bill deficit neutral for fiscal year 1992 and over the fiscal year 1992-1996 period, the bill includes an increase in the excise tax rate on ozone-depleting chemicals, disallows a deduction for executive compensation in excess of \$1 million per year, provides increases in certain Medicare premiums, and includes revenue offsets from the coal industry for the coal miners' health care provisions.

B. Other Matters

Vote of the Committee

In compliance with paragraph 7(c) of Rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the vote of the committee on the motion to report the bill. The bill was ordered reported by voice vote.

Tax Expenditure

In compliance with Section 308(a)(2) of the Budget Act, the committee states that the bill as amended involves increased tax expenditures with respect to the tax decrease portion of the expansion of the earned income tax credit.

Congressional Budget Office Estimates

In accordance with Section 403 of the Budget Act, the committee advises that the Congressional Budget Office submitted the following statement:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 6, 1992.

Hon. LLOYD BENTSEN,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for the Family Security Initiatives

Act of 1992 as ordered reported by the Senate Committee on Finance on March 3, 1992.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

C.G. NUCKOLS
(For Robert D. Reischauer, Director).

Enclosure.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: S. 2325.
2. Bill title: Family Security Initiatives Act of 1992.
3. Bill status: As ordered reported by the Senate Finance Committee on March 3, 1992.
4. Bill purpose: To provide for the simplification and expansion of earned income tax credit, to increase the base tax rate on ozone-depleting chemicals and expand the list of taxed chemicals, to provide coverage of certain immunizations and well-child care under the Medicare program, to provide the disallowance of the deduction for certain employee remuneration in excess of \$1 million and to provide health care for coal miners.
5. Estimated cost to the Federal Government:

TABLE 1.—ESTIMATED COSTS TO THE FEDERAL GOVERNMENT

(By fiscal years, in millions of dollars)

	1992	1993	1994	1995	1996	Total
Estimated outlays:						
Earned income tax credit.....	22	224	231	232	232	941
Medicare coverage of influenza immunization.....		80	90	100	110	380
Medicare coverage of tetanus-diphtheria booster.....		3	5	6	6	20
Medicare coverage of well-child care.....		1	1	1	2	5
Additional Medicare premium.....		-30	-40	-40	-45	-155
Medicaid costs (from premium).....		2	3	3	3	11
Retiree health benefits for coal miners.....	106	274	298	323	349	1,350
Total outlays.....	128	554	588	625	657	2,552
Estimated receipts:						
Increase excise tax on ozone-depleting chemicals.....			400	600	300	1,300
Cap deduction for regular tax and AMT purposes for executive compensation at \$1 million.....	100	300	400	400	400	1,600
Retiree health benefits for coal miners.....	158	261	281	311	339	1,350
Total receipts.....	258	561	1,081	1,311	1,039	4,250
Deficit effect (outlays minus receipts).....	-130	-7	-493	-686	-382	-1,698

Basis of estimate

Earned income tax credit.—Section 2 of the bill would modify the earned income tax credit by eliminating the young child supplemental credit, raising the credit percentage for families with two or more children, and simplify the interactions between the health insurance credit and other tax provisions. All changes would be effective starting with tax year 1992. This estimate was provided by the Joint Committee on Taxation.

Medicare provisions.—Sections 4 through 6 of this bill contain several preventive benefits for Medicare enrollees. The preventive services that would be added include influenza immunizations, tetanus-diphtheria booster shots, and well-child care for End-stage Renal Disease (ESRD) children. Under current law, Medicare will not pay for these preventive services. In addition, the bill includes an add-on to the Supplementary Medicare Insurance (SMI) monthly premium to finance partially the costs of these benefits. These provisions would be subject to pay-as-you-go requirements of the Budget Enforcement Act of 1990.

This bill would provide for coverage of annual influenza vaccinations for Medicare enrollees. Costs to the federal government are projected to be \$80 million in fiscal year 1993 and would increase to \$110 million by fiscal year 1996. The estimate assumes that half of the Medicare population would participate the first year the benefit was offered. The participation assumed would increase to 60 percent by the end of the projection period. The price of the vaccine was estimated using recent price data from the Medicare influenza immunization demonstration project. Because the immunization would prevent more serious illness in some beneficiaries, savings from reduced hospital and ambulatory care offset the costs for this provision, so the figures in the table are net costs. This benefit would have an effective date of October 1, 1992.

The bill would provide for tetanus-diphtheria booster shots every ten years for Medicare beneficiaries as a preventive benefit. Current utilization for this booster shot is about five percent for people over 65. The estimate assumes that ten percent of the Medicare population would participate when this benefit is offered. The current Medicare price for the tetanus-diphtheria booster was used for the estimate. (Currently, Medicare will pay for this booster when medically necessary.) The estimated federal costs for this benefit are \$3 million in fiscal year 1993 and \$20 million over the four year projection period.

The bill would provide for the coverage of well-child care for the approximately 350 children on the Medicare program. These children are entitled to Medicare through the ESRD program. Well-child services would include routine office visits, routine immunizations, routine laboratory tests, and preventive dental care for these children up to age seven. Costs were estimated by using the Medicaid per capita costs for infants and children and adjusting these rates to reflect Medicare fee schedules. This provision is estimated to cost \$1 million in fiscal year 1993 and \$5 million over the four-year projection period.

As partial financing of the pay-as-you-go provisions, the bill would increase the SMI monthly premium by \$0.10 in each year 1993 to 1996. Table 2 shows the revised monthly premium that would be charged to Medicare beneficiaries upon enactment of this bill. The premium receipts from this proposal would be \$30 million in fiscal year 1993 and would increase to \$45 million by fiscal year 1996.

TABLE 2.—EFFECTS OF PROPOSED CHANGES TO MEDICARE PREMIUM

[By calendar year, in dollars]

	1993	1994	1995	1996
Proposed premium increase.....	0.10	0.10	0.10	0.10
Current law premium.....	36.60	41.10	46.10	47.80
Total monthly premium.....	36.70	41.20	46.20	47.90

The Medicaid costs shown in Table 1 reflect the federal share of the increased premium associated with the bill. The Medicare program pays SMI premium for approximately 15 percent of Medicare beneficiaries. The Medicaid program is funded jointly from federal, state, and local sources; the federal share of the program is approximately 57 percent.

Health care for coal miners.—CBO does not have any legislative language for this provision. Therefore, the estimates below are based on discussions with Congressional staff. The estimates could change if the language is substantially different from the information provided by the staff. Table 3 shows the details of the estimate.

TABLE 3.—BUDGET EFFECT OF COAL MINER'S HEALTH CARE PROVISIONS

[By fiscal years, in millions of dollars]

	1992	1993	1994	1995	1996
Outlays: Retiree health benefits for coal miners.....	106	274	298	323	349
Receipts:					
Per beneficiary premiums.....	35	89	97	105	114
Gross labor tax/import ¹	77	186	203	230	253
Indirect tax effects ¹	-4	-14	-19	-24	-28
Payment from pension fund.....	50	0	0	0	0
Subtotal receipt.....	158	261	281	311	339
Net effect on the deficit (outlays - receipts).....	-52	13	17	12	10

¹ Estimated by the Joint Committee on Taxation.

The bill would revise the manner in which the provision of health care to retirees in the coal industry is funded and maintained. Currently, two retiree health benefit funds for coal industry employees exist. The 1950 Benefit Trust Fund provides benefits to those who retired prior to 1976 while the 1974 Benefit Trust Fund provides benefits to those who have retired since 1976. These funds are financed by contributions from the companies that are signatories to the National Bituminous Coal Wage Agreements.

This bill would replace the 1950 and 1974 Benefit funds with two new funds. The first would be a government entity called the Coal Retiree Health Benefit Corporation (the Corporation) and would provide benefits to orphans. Orphans are those beneficiaries whose companies have gone out of business or ceased contributing to the 1950 or 1974 Benefit funds when they were no longer signatories to the coal wage agreements. The second new fund would be an employee welfare benefit plan within the meaning of section 3(1) of the Employee Retirement Income Security Act of 1974 called the

United Mine Workers of America 1991 Benefit Fund. The 1991 Fund would provide retiree health benefits to retirees whose companies are still in business and signatories to the coal wage agreements.

The benefits paid by the two new funds would be financed by three different taxes. The first is a tax on labor employed by domestic coal producers. Producers of lignite and subbituminous coal would be exempt from this tax. The tax rates on labor are \$1.99 per hour in fiscal year 1992, \$1.09 per hour in 1993, \$1.20 per hour in 1994, \$1.32 per hour in 1995, and \$1.45 per hour in 1996 as estimated by the Joint Committee on Taxation. The second is a tax on imported coal that would be set equivalent to the tax on labor employed by domestic coal producers. The third is a pre-beneficiary premium to cover medical costs. Employers that are current signatories to the coal wage agreements would be required to pay this premium for each eligible retired employee. In addition, the companies that were formerly signatories to the coal wage agreements and that as of January 1, 1992 were engaged in the production, sale, distribution, transfer, or use of bituminous or subbituminous coal would be required to pay this premium for each eligible retired employee. The bill specifies that the premium would be calculated by dividing the total benefit costs, including administrative expenses, by the number of eligible retirees for each employer.

CBO estimates that the amount paid from both the Corporation and the 1991 Benefit Fund including administrative expenses would be \$108 million in fiscal year 1992 and would grow to \$349 million in fiscal year 1996. Based on information in the United Mine Workers of America Health and Retirement Funds 1991 Annual Report, CBO estimates an average benefit of approximately \$2,000 in 1992 growing to approximately \$4,000 in 1996. These estimates include administrative expenses of roughly 10 percent of total benefits and assume health expenditures would grow at an annual rate of 15 percent. The average number of beneficiaries is estimated to be 118,000 in 1992 declining to 95,000 in 1996. The estimates of beneficiaries were provided by the current administrators of the 1950 and 1974 Benefit Funds and are based on attrition experience from 1982 through 1991.

Based on information provided by the United Mine Workers Association, approximately 30 percent of all current beneficiaries are associated with employers who would be required to pay the premium. CBO estimates the beneficiary premiums collected would be \$440 million over the five-year period. In addition, this provision would require the transfer of \$50 million to the Corporation from the 1950 Pension Fund.

Increase the excise tax on ozone-depleting chemicals.—Section 3 of the bill would increase the base tax rate on all ozone-depleting chemicals, beginning July 1, 1992. This proposed base tax rate per pound would be increased to \$1.85 in 1992, \$2.75 in 1993, \$3.65 in 1994, and \$4.55 in 1995. The base tax rates after 1995 would continue to increase each year by \$0.45 per pound, as specified under current law. This estimate was provided by the Joint Committee on Taxation.

Cap on deduction for regular tax and AMT purposes for executive compensation at \$1 million.—The bill would limit the business de-

ductions for employee remuneration. The deduction for any employee could be no more than \$1 million. This estimate was provided by the Joint Committee on Taxation.

6. Pay-as-you-go considerations: The Budget Enforcement Act of 1990 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts through 1995. All of the provisions of the bill would affect direct spending or receipts as shown in Table 4. Therefore, this bill would require pay-as-you-go financing, either through the reduction of direct spending or an increase in receipts.

TABLE 4.—PAY-AS-YOU-GO EFFECTS OF THE BILL

[By fiscal years, in millions of dollars]

	1992	1993	1994	1995
Change in outlays	128	554	588	625
Change in receipts	258	561	1,081	1,311
Net deficit effect (outlays minus receipts)	-130	-7	-493	-686

7. Estimated cost to state and local government: The bill would result in costs to state and local Medicaid programs due to the increased SMI premium. Medicaid pays the monthly premium for approximately 15 percent of the Medicare population. The estimated cost to state Medicaid programs would be \$2 million in fiscal year 1993 and \$10 million over the four-year period.

8. Estimate comparison: None.

9. Previous CBO estimate: None.

10. Estimate prepared by: Medicare—Lori Housman, Health Benefits for Coal Miners—Cory Oltman, and Revenue Provisions—Joint Committee on Taxation.

11. Estimate approved by: Charles E. Seagrave, for C.G. Nuckols, Assistant Director for Budget Analysis.

V. CHANGES IN EXISTING LAW MADE BY THE BILL AS REPORTED

In the opinion of the committee, it is necessary in order to expedite the business of the Senate, to dispense with the requirements of paragraph 12 of the Rule XXVI of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill as reported by the Committee on Finance).

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