



October 31, 2011

Honorable John Thune
United States Senate
Washington, DC 20510

Dear Senator:

This letter responds to your request for the Congressional Budget Office (CBO) to remove the Community Living and Assistance Services and Supports (CLASS) program from its budget baseline and provide a new estimate of the budgetary impact of repealing the CLASS legislation. That request was made in light of the October 14, 2011, announcement by the Secretary of the Department of Health and Human Services (HHS) that she did not “see a viable path forward for CLASS implementation at this time.”¹

Procedures to Account for New Information

CBO updates its baseline budget projections three times each year to reflect legislative, economic, and technical changes that occur throughout the year. Those updates are usually published in January, March, and August. The projections that are published in March of each year have generally been adopted by the budget committees as the official scorekeeping baseline for that Congressional session. Therefore, as a general rule, legislation being considered in the House or Senate is evaluated relative to the most-recent March baseline.

However, during the course of a year, events sometimes occur that are different from those assumed in developing the baseline projections. In such cases, CBO follows longstanding procedures governing when and how to take into account such developments, which may include the enactment of legislation or the availability of new information.

1. Letter from Kathleen Sebelius, Secretary of the Department of Health and Human Services, to John A. Boehner, Speaker, House of Representatives, October 14, 2011.

If the new information indicates that something definitely has happened or definitely will happen (such as an agency issuing a final rule, or an official announcement clearly defining an intended Administration action—such as the HHS Secretary’s announcement on October 14), CBO incorporates that information in its next regular baseline update. It also immediately takes that information into account when analyzing legislation being considered by the Congress—even if it has not published new baseline projections.² For example, the Social Security Administration recently announced that the cost-of-living adjustment (COLA) for Social Security benefits will be 3.6 percent in 2012. Although CBO’s baseline projections incorporated a lower COLA, once that announcement was made, a CBO estimate for any legislation affecting Social Security would reflect the actual 3.6 percent COLA.

Other types of information may be less definitive, in that they would affect CBO’s judgment about possible future events but do not indicate with certainty what will happen. In such cases, CBO would take that information into account in its next regular baseline update, but would not use it in estimating the costs of legislation prior to that update. For example, spending in fiscal year 2011 for a given mandatory program may have been higher or lower than CBO projected, suggesting that the baseline estimates of annual outlays may be too high or too low. Such results are not definitive for determining the amount of spending in future years, so they do not affect CBO’s estimates in the near term, although they would be taken into account in setting the next baseline projections.

Updating Estimates for CLASS

In its March 2011 baseline projections, CBO anticipated that the CLASS program would begin collecting premiums in fiscal year 2012 and that net receipts of the program over the 2012-2021 period would amount to \$81 billion. In the absence of the program, the government would not receive that income—and, in addition, Medicaid costs would be about \$2 billion higher, CBO estimates. Therefore, prior to the October 14

2. In most cases, Administration announcements about the operation of discretionary programs would not affect CBO’s baseline projections of budget authority for those programs, which are generally based on the most recent enacted appropriations.

Honorable John Thune
Page 3

announcement by the Secretary of HHS, CBO would have estimated that the Repeal the CLASS Entitlement Act (S. 720, as introduced on April 4, 2011) would increase federal budget deficits by \$83 billion over the 2012–2021 period, relative to the March 2011 baseline.³

CBO considers the October 14 announcement to be definitive new information, and in its next baseline projections (which will be issued in January), CBO will assume that CLASS will not be implemented unless there are changes in law or other actions by the Administration that would supersede the Secretary's announcement. Further, beginning immediately, legislation to repeal the provisions of law establishing the CLASS program, such as S. 720, would be estimated as having no budgetary effect.

I hope this information is helpful to you. Please let me know if you have any further questions.

Sincerely,



Douglas W. Elmendorf
Director

cc: Honorable Max Baucus
Chairman
Committee on Finance

Honorable Orrin Hatch
Ranking Member

3. This estimate differs slightly from the estimated budgetary impact of repealing the CLASS Act (\$86 billion) that was in CBO's February 18, 2011, letter to the Honorable John Boehner about the budgetary effects of H.R. 2, the Repealing the Job-Killing Health Care Law Act, because that earlier estimate was relative to CBO's baseline projections available at that time.