

108TH CONGRESS
1ST SESSION

S. 100

To expand access to affordable health care and to strengthen the health care safety net and make health care services more available in rural and underserved areas.

IN THE SENATE OF THE UNITED STATES

JANUARY 7, 2003

Ms. COLLINS (for herself and Ms. LANDRIEU) introduced the following bill;
which was read twice and referred to the Committee on Finance

A BILL

To expand access to affordable health care and to strengthen the health care safety net and make health care services more available in rural and underserved areas.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Access to Affordable Health Care Act”.

6 (b) TABLE OF CONTENTS.—The table of contents of
7 this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I—EXPANSION OF ACCESS TO AFFORDABLE HEALTH
CARE FOR SMALL BUSINESSES

Subtitle A—Small Business Tax Credit

Sec. 101. Credit for employee health insurance expenses.

Subtitle B—Grants to States for Small Business Purchasing Groups

Sec. 121. Grants for small employer purchasing groups.

Sec. 122. Qualified small employer purchasing groups.

Subtitle C—Health Benefits Information for Small Employers

Sec. 131. Grant program to facilitate health benefits information for small employers.

Subtitle D—Grant Program to Encourage State Innovation

Sec. 141. Grant program to encourage State innovation.

TITLE II—EXPANSION OF ACCESS TO AFFORDABLE HEALTH CARE FOR INDIVIDUALS AND FAMILIES

Subtitle A—Internal Revenue Code Provisions

CHAPTER 1—REFUNDABLE CREDIT FOR UNINSURED FAMILIES

Sec. 201. Refundable health insurance costs credit.

Sec. 202. Advance payment of credit to issuers of qualified health insurance.

CHAPTER 2—IMMEDIATE, FULL DEDUCTIBILITY OF HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS

Sec. 205. Deduction for 100 percent of health insurance costs of self-employed individuals.

Subtitle B—FamilyCare

Sec. 211. Renaming of title XXI program.

Sec. 212. FamilyCare coverage of parents under the medicaid program and title XXI.

Sec. 213. Optional coverage of children through age 20 under the medicaid program and title XXI.

Sec. 214. Increase in chip allotment for each of fiscal years 2003 through 2005.

Sec. 215. Additional chip revisions.

Sec. 216. Limitations on conflicts of interest.

Sec. 217. Technical and conforming amendments to authority to pay medicaid expansion costs from title XXI appropriation.

Subtitle C—Simplified Enrollment

Sec. 221. Automatic enrollment of children born to title XXI parents.

Sec. 222. Application of simplified title XXI procedures under the medicaid program.

Sec. 223. Elimination of 100 hour rule and other AFDC-related eligibility restrictions.

Subtitle D—State Option to Provide Coverage of Legal Immigrants Under Medicaid and SCHIP

Sec. 231. Optional coverage of legal immigrants under the medicaid program and title XXI.

Subtitle E—State Option to Extend Medicaid Coverage to Certain Low-Income Individuals

Sec. 241. State option to extend medicaid coverage to certain low-income individuals.

Subtitle F—Improving Welfare-to-Work Transition Under Medicaid

Sec. 251. Improving welfare-to-work transition under medicaid.

Subtitle G—Demonstration Programs to Improve Medicaid and SCHIP Outreach to Homeless Individuals and Families

Sec. 261. Demonstration programs to improve medicaid and SCHIP outreach to homeless individuals and families.

Subtitle H—High Risk Pools

Sec. 271. Promotion of State high risk pools.

TITLE III—STRENGTHENING THE HEALTH CARE SAFETY NET

Sec. 301. Increase in funding for the consolidated health centers program.

TITLE IV—EXPANSION OF ACCESS TO HEALTH CARE IN RURAL AND UNDERSERVED AREAS

Subtitle A—National Health Service Corps

Sec. 401. Expansion of funding.

Sec. 402. Loan repayment and scholarship programs.

Subtitle B—Tax Exclusion for National Health Service Corps Loan Repayment Recipients

Sec. 411. Exclusion for loan payments under National Health Service Corps loan repayment program.

TITLE V—EXPANDED ACCESS TO AFFORDABLE LONG-TERM CARE

Sec. 501. Treatment of premiums on qualified long-term care insurance contracts.

Sec. 502. Credit for taxpayers with long-term care needs.

Sec. 503. Additional consumer protections for long-term care insurance.

TITLE VI—PROMOTING HEALTHIER LIFESTYLES

Sec. 601. Community partnerships to promote healthy lifestyles.

Sec. 602. Worksite wellness grant program.

Sec. 603. Comprehensive school health education.

TITLE VII—MEDICARE FAIRNESS

Subtitle A—Medicare Value and Quality Demonstration

Sec. 701. Findings.

Sec. 702. Demonstration project to encourage the provision of high-quality, cost-effective inpatient hospital services.

Sec. 703. Demonstration project to encourage the provision of high-quality, cost-effective physicians' services.

Subtitle B—Graduate Medical Education Demonstration

Sec. 711. Clinical rotation demonstration project.

1 TITLE I—EXPANSION OF ACCESS
2 TO AFFORDABLE HEALTH
3 CARE FOR SMALL BUSI-
4 NESSES

5 Subtitle A—Small Business Tax
6 Credit

7 SEC. 101. CREDIT FOR EMPLOYEE HEALTH INSURANCE EX-
8 PENSES.

9 (a) IN GENERAL.—Subpart D of part IV of sub-
 10 chapter A of chapter 1 of the Internal Revenue Code of
 11 1986 (relating to business-related credits) is amended by
 12 adding at the end the following:

13 “SEC. 45G. EMPLOYEE HEALTH INSURANCE EXPENSES.

14 “(a) GENERAL RULE.—For purposes of section 38,
 15 in the case of an employer, the employee health insurance
 16 expenses credit determined under this section is an
 17 amount equal to the applicable percentage of the amount
 18 paid by the taxpayer during the taxable year for qualified
 19 employee health insurance expenses.

20 “(b) APPLICABLE PERCENTAGE.—For purposes of
 21 subsection (a), the applicable percentage is equal to—

1 “(1) 50 percent in the case of an employer with
2 less than 10 employees, and

3 “(2) 30 percent in the case of an employer with
4 more than 9 but less than 26 employees.

5 “(c) PER EMPLOYEE DOLLAR LIMITATION.—The
6 amount of qualified employee health insurance expenses
7 taken into account under subsection (a) with respect to
8 any qualified employee for any taxable year shall not ex-
9 ceed—

10 “(1) \$2,000 in the case of self-only coverage,
11 and

12 “(2) \$4,000 in the case of family coverage (as
13 so defined).

14 “(d) SPECIAL RULES AND DEFINITIONS.—For pur-
15 poses of this section—

16 “(1) ELIGIBILITY FOR CREDIT.—No credit shall
17 be allowed under subsection (a) with respect to any
18 employer which, with respect to the number of em-
19 ployees employed during any period, employs more
20 than 20 percent of highly compensated employees
21 (within the meaning of section 414(q)).

22 “(2) DETERMINATION OF EMPLOYMENT.—

23 “(A) IN GENERAL.—An employer shall be
24 considered an employer described in paragraph
25 (1) or (2) of subsection (b) if such employer

1 employed an average of the number of employ-
 2 ees described in such paragraph on business
 3 days during either of the 2 preceding calendar
 4 years. For purposes of the preceding sentence,
 5 a preceding calendar year may be taken into ac-
 6 count only if the employer was in existence
 7 throughout such year.

8 “(B) EMPLOYERS NOT IN EXISTENCE IN
 9 PRECEDING YEAR.—In the case of an employer
 10 which was not in existence throughout the 1st
 11 preceding calendar year, the determination
 12 under subparagraph (A) shall be based on the
 13 average number of employees that it is reason-
 14 ably expected such employer will employ on
 15 business days in the current calendar year.

16 “(3) QUALIFIED EMPLOYEE HEALTH INSUR-
 17 ANCE EXPENSES.—

18 “(A) IN GENERAL.—The term ‘qualified
 19 employee health insurance expenses’ means any
 20 amount paid by an employer for health insur-
 21 ance coverage to the extent such amount—

22 “(i) is attributable to coverage pro-
 23 vided to any employee while such employee
 24 is a qualified employee; and

1 “(ii) is at least 50 percent of the pre-
 2 mium for such coverage.

3 “(B) EXCEPTION FOR AMOUNTS PAID
 4 UNDER SALARY REDUCTION ARRANGEMENTS.—
 5 No amount paid or incurred for health insur-
 6 ance coverage pursuant to a salary reduction
 7 arrangement shall be taken into account under
 8 subparagraph (A).

9 “(C) HEALTH INSURANCE COVERAGE.—
 10 The term ‘health insurance coverage’ has the
 11 meaning given such term by section 9832(b)(1).

12 “(4) QUALIFIED EMPLOYEE.—

13 “(A) IN GENERAL.—The term ‘qualified
 14 employee’ means, with respect to any period, an
 15 employee of an employer if the total amount of
 16 wages paid or incurred by such employer to
 17 such employee at an annual rate during the
 18 taxable year is not less than \$5,000.

19 “(B) TREATMENT OF CERTAIN EMPLOY-
 20 EES.—For purposes of subparagraph (A), the
 21 term ‘employee’—

22 “(i) shall not include an employee
 23 within the meaning of section 401(c)(1),
 24 but

1 “(ii) shall include a leased employee
2 within the meaning of section 414(n).

3 “(C) WAGES.—The term ‘wages’ has the
4 meaning given such term by section 3121(a)
5 (determined without regard to any dollar limita-
6 tion contained in such section).

7 “(e) CERTAIN RULES MADE APPLICABLE.—For pur-
8 poses of this section, rules similar to the rules of section
9 52 shall apply.

10 “(f) DENIAL OF DOUBLE BENEFIT.—No deduction
11 or credit under any other provision of this chapter shall
12 be allowed with respect to qualified employee health insur-
13 ance expenses taken into account under subsection (a).”.

14 (b) CREDIT TO BE PART OF GENERAL BUSINESS
15 CREDIT.—Section 38(b) of the Internal Revenue Code of
16 1986 (relating to current year business credit) is amended
17 by striking “plus” at the end of paragraph (14), by strik-
18 ing the period at the end of paragraph (15) and inserting
19 “, plus”, and by adding at the end the following:

20 “(16) the employee health insurance expenses
21 credit determined under section 45G.”.

22 (c) NO CARRYBACKS.—Subsection (d) of section 39
23 of the Internal Revenue Code of 1986 (relating to
24 carryback and carryforward of unused credits) is amended
25 by adding at the end the following:

1 “(11) NO CARRYBACK OF SECTION 45G CREDIT
 2 BEFORE EFFECTIVE DATE.—No portion of the un-
 3 used business credit for any taxable year which is
 4 attributable to the employee health insurance ex-
 5 penses credit determined under section 45G may be
 6 carried back to a taxable year ending before January
 7 1, 2003.”.

8 (d) CLERICAL AMENDMENT.—The table of sections
 9 for subpart D of part IV of subchapter A of chapter 1
 10 of the Internal Revenue Code of 1986 is amended by add-
 11 ing at the end the following:

 “Sec. 45G. Employee health insurance expenses.”.

12 (e) EFFECTIVE DATE.—The amendments made by
 13 this section shall apply to amounts paid or incurred in tax-
 14 able years beginning after December 31, 2002.

15 **Subtitle B—Grants to States for**
 16 **Small Business Purchasing Groups**

17 **SEC. 121. GRANTS FOR SMALL EMPLOYER PURCHASING**
 18 **GROUPS.**

19 (a) IN GENERAL.—The Secretary of Labor (referred
 20 to in this section as the “Secretary”) shall award grants
 21 to States to assist such States in planning, developing, and
 22 operating qualified small employer purchasing groups.

23 (b) APPLICATION REQUIREMENTS.—To be eligible to
 24 receive a grant under this section, a State shall prepare
 25 and submit to the Secretary an application in such form,

1 at such time, and containing such information, certifi-
2 cations, and assurances as the Secretary shall reasonably
3 require.

4 (c) USE OF FUNDS.—Amounts awarded under this
5 section may be used to finance the costs associated with
6 planning, developing, and operating a qualified small em-
7 ployer purchasing group that meets the requirements of
8 section 122. Such costs may include the costs associated
9 with—

10 (1) engaging in education and outreach efforts
11 to inform small employers, insurers, and the public
12 about the small employer purchasing group;

13 (2) soliciting bids and negotiating with insurers
14 to make available group health plans;

15 (3) preparing the documentation required to re-
16 ceive certification by the Secretary as a qualified
17 small employer purchasing group; and

18 (4) such other activities determined appropriate
19 by the Secretary.

20 (d) AUTHORIZATION OF APPROPRIATIONS.—There
21 are authorized to be appropriated to carry out this section,
22 such sums as may be necessary for each of fiscal years
23 2004 through 2008.

1 **SEC. 122. QUALIFIED SMALL EMPLOYER PURCHASING**
2 **GROUPS.**

3 (a) QUALIFIED SMALL EMPLOYER PURCHASING
4 GROUPS DESCRIBED.—

5 (1) IN GENERAL.—A qualified small employer
6 purchasing group is an entity that—

7 (A) is a nonprofit entity certified under
8 State law;

9 (B) has a membership consisting solely of
10 small employers;

11 (C) is administered solely under the au-
12 thority and control of its member employers;

13 (D) with respect to each State in which its
14 members are located, consists of not fewer than
15 the number of small employers established by
16 the State as appropriate for such a group;

17 (E) offers a program under which group
18 health plans are offered to eligible employees
19 and eligible individuals (including the depend-
20 ents of such employees and individuals) through
21 its member employers; and

22 (F) an insurer, agent, broker, or any other
23 individual or entity engaged in the sale of insur-
24 ance—

25 (i) does not form or underwrite; and

1 (ii) does not hold or control any right
2 to vote with respect to.

3 (2) SPECIAL RULE.—Notwithstanding para-
4 graph (1)(B), an employer member of a small em-
5 ployer purchasing group that has been certified by
6 the State as meeting the requirements of paragraph
7 (1) may retain its membership in the group if the
8 number of employees of the employer increases such
9 that the employer is no longer a small employer.

10 (b) BOARD OF DIRECTORS.—Each qualified small
11 employer purchasing group established under this section
12 shall be governed by a board of directors or have active
13 input from an advisory board consisting of individuals and
14 businesses participating in the group.

15 (c) MEMBERSHIP.—

16 (1) IN GENERAL.—A qualified small employer
17 purchasing group shall accept all small employers re-
18 siding within the area served by the group as mem-
19 bers if such employers request such membership.

20 (2) VOTING.—Members of a qualified small em-
21 ployer purchasing group shall have voting rights
22 consistent with the rules established by the State.

23 (d) DUTIES OF QUALIFIED SMALL EMPLOYER PUR-
24 CHASING GROUPS.—Each qualified small employer pur-
25 chasing group shall—

1 (1) enter into agreements with insurers offering
2 qualified group health plans;

3 (2) enter into agreements with small employers
4 for the purchase of health insurance;

5 (3) enroll only eligible employees, eligible indi-
6 viduals, and the dependents of such employees and
7 individuals in group health plans; and

8 (4) provide enrollee information to the State.

9 (e) LIMITATION ON ACTIVITIES.—A qualified small
10 employer purchasing group shall not—

11 (1) perform any activity involving approval or
12 enforcement of payment rates for providers;

13 (2) assume financial risk in relation to any such
14 health plan; or

15 (3) perform other activities identified by the
16 State as being inconsistent with the performance of
17 its duties.

18 (f) RULES OF CONSTRUCTION.—

19 (1) ESTABLISHMENT NOT REQUIRED.—Nothing
20 in this section shall be construed as requiring that
21 a State organize, operate or otherwise establish a
22 qualified small employer purchasing group, or other-
23 wise require the establishment of purchasing groups.

24 (2) VOLUNTARY PARTICIPATION.—Nothing in
25 this section shall be construed as requiring any indi-

1 vidual or small employer to purchase a group health
 2 plan exclusively through a qualified small employer
 3 purchasing group.

4 (g) DEFINITION.—In this subtitle, the term “small
 5 employer” means an employer that employs at least 1, but
 6 not more than 50 employees. Such term shall include sole
 7 proprietorships and self-employed individuals.

8 **Subtitle C—Health Benefits**

9 **Information for Small Employers**

10 **SEC. 131. GRANT PROGRAM TO FACILITATE HEALTH BENE-** 11 **FITS INFORMATION FOR SMALL EMPLOYERS.**

12 (a) IN GENERAL.—The Small Business Administra-
 13 tion shall award grants to 1 or more States, local govern-
 14 ments, and non-profit organizations for the purposes of—

15 (1) demonstrating new and effective ways to
 16 provide information about the benefits of health in-
 17 surance to small employers, including tax benefits,
 18 increased productivity of employees, and decreased
 19 turnover of employees;

20 (2) making small employers aware of their cur-
 21 rent rights in the marketplace under Federal and
 22 State health insurance reform laws; and

23 (3) making small employers aware of the tax
 24 treatment of insurance premiums.

1 (b) AUTHORIZATION.—There is authorized to be ap-
 2 propriated to carry out this section, such sums as may
 3 be necessary for each of fiscal years 2004 through 2008.

4 **Subtitle D—Grant Program to**
 5 **Encourage State Innovation**

6 **SEC. 141. GRANT PROGRAM TO ENCOURAGE STATE INNO-**
 7 **VATION.**

8 (a) IN GENERAL.—The Secretary of Health and
 9 Human Services (in this section referred to as the “Sec-
 10 retary”) shall establish a program (in this section referred
 11 to as the “program”) to award demonstration grants
 12 under this section to States to allow States to demonstrate
 13 the effectiveness of innovative ways to increase access to
 14 health insurance through market reforms and other inno-
 15 vative means. Such innovative means may include any of
 16 the following:

17 (1) Alternative group purchasing or pooling ar-
 18 rangements, such as purchasing cooperatives for
 19 small businesses, reinsurance pools, or high risk
 20 pools.

21 (2) Individual or small group market reforms.

22 (3) Consumer education and outreach.

23 (4) Subsidies to individuals, employers, or both,
 24 in obtaining health insurance.

1 (b) SCOPE; DURATION.—The program shall be lim-
 2 ited to not more than 10 States and to a total period of
 3 5 years, beginning on the date the first demonstration
 4 grant is made.

5 (c) CONDITIONS FOR DEMONSTRATION GRANTS.—

6 (1) IN GENERAL.—The Secretary may not pro-
 7 vide for a demonstration grant to a State under the
 8 program unless the Secretary finds that under the
 9 proposed demonstration grant—

10 (A) the State will provide for demonstrated
 11 increase of access for some portion of the exist-
 12 ing uninsured population through a market in-
 13 novation (other than merely through a financial
 14 expansion of a program initiated before the
 15 date of enactment of this Act);

16 (B) the State will comply with applicable
 17 Federal laws;

18 (C) the State will not discriminate among
 19 participants on the basis of any health status-
 20 related factor (as defined in section 2791(d)(9)
 21 of the Public Health Service Act (42 U.S.C.
 22 300gg–91(d)(9)), except to the extent a State
 23 wishes to focus on populations that otherwise
 24 would not obtain health insurance because of
 25 such factors; and

1 (D) the State will provide for such evalua-
2 tion, in coordination with the evaluation re-
3 quired under subsection (d), as the Secretary
4 may specify.

5 (2) APPLICATION.—The Secretary shall not
6 provide a demonstration grant under the program to
7 a State unless—

8 (A) the State submits to the Secretary
9 such an application, in such a form and man-
10 ner, as the Secretary specifies;

11 (B) the application includes information
12 regarding how the demonstration grant will ad-
13 dress issues such as governance, targeted popu-
14 lation, expected cost, and the continuation after
15 the completion of the demonstration grant pe-
16 riod; and

17 (C) the Secretary determines that the dem-
18 onstration grant will be used consistent with
19 this section.

20 (3) FOCUS.—A demonstration grant proposal
21 under this section need not cover all uninsured indi-
22 viduals in a State or all health care benefits with re-
23 spect to such individuals.

24 (d) EVALUATION.—The Secretary shall enter into a
25 contract with an appropriate entity outside the Depart-

1 ment of Health and Human Services to conduct an overall
 2 evaluation of the program at the end of the program pe-
 3 riod. Such evaluation shall include an analysis of improve-
 4 ments in access, costs, quality of care, or choice of cov-
 5 erage, under different demonstration grants.

6 (e) OPTION TO PROVIDE FOR INITIAL PLANNING
 7 GRANTS.—Notwithstanding the previous provisions of this
 8 section, under the program the Secretary may provide for
 9 a portion of the amounts appropriated under subsection
 10 (f) (not to exceed \$5,000,000) to be made available to any
 11 State for initial planning grants to permit States to de-
 12 velop demonstration grant proposals under the previous
 13 provisions of this section.

14 (f) AUTHORIZATION OF APPROPRIATIONS.—There
 15 are authorized to be appropriated such sums as may be
 16 necessary to carry out this section. Amounts appropriated
 17 under this subsection shall remain available until ex-
 18 pended.

19 (g) STATE DEFINED.—In this section, the term
 20 “State” has the meaning given such term for purposes of
 21 title XIX of the Social Security Act (42 U.S.C. 1396 et
 22 seq.).

1 **TITLE II—EXPANSION OF AC-**
 2 **CESS TO AFFORDABLE**
 3 **HEALTH CARE FOR INDIVID-**
 4 **UALS AND FAMILIES**

5 **Subtitle A—Internal Revenue Code**
 6 **Provisions**

7 **CHAPTER 1—REFUNDABLE CREDIT FOR**
 8 **UNINSURED FAMILIES**

9 **SEC. 201. REFUNDABLE HEALTH INSURANCE COSTS CRED-**
 10 **IT.**

11 (a) ALLOWANCE OF CREDIT.—

12 (1) IN GENERAL.—Subpart C of part IV of sub-
 13 chapter A of chapter 1 of the Internal Revenue Code
 14 of 1986 (relating to refundable personal credits) is
 15 amended by redesignating section 36 as section 37
 16 and inserting after section 35 the following:

17 **“SEC. 36. HEALTH INSURANCE COSTS FOR UNINSURED ELI-**
 18 **GIBLE INDIVIDUALS.**

19 “(a) ALLOWANCE OF CREDIT.—In the case of an un-
 20 insured eligible individual, there shall be allowed as a cred-
 21 it against the tax imposed by this subtitle for the taxable
 22 year an amount equal to the amount paid by the taxpayer
 23 during such taxable year for qualified health insurance for
 24 the taxpayer and the taxpayer’s spouse and dependents.

25 “(b) LIMITATIONS.—

“(1) IN GENERAL.—The amount allowed as a credit under subsection (a) to the taxpayer for the taxable year shall not exceed the lesser of—

“(A) the sum of the monthly limitations for coverage months during such taxable year for the individuals referred to in subsection (a) for whom the taxpayer paid during the taxable year any amount for coverage under qualified health insurance, or

“(B) 90 percent of the amount paid by the taxpayer during such taxable year for qualified health insurance for such individuals.

“(2) MONTHLY LIMITATION.—

“(A) IN GENERAL.—The monthly limitation for an individual for each coverage month of such individual during the taxable year is the amount equal to $\frac{1}{12}$ of—

“(i) \$1,000 if such individual is the taxpayer,

“(ii) \$1,000 if—

“(I) such individual is the spouse of the taxpayer,

“(II) the taxpayer and such spouse are married as of the first day of such month, and

1 “(III) the taxpayer files a joint
2 return for the taxable year, and

3 “(iii) \$500 if such individual is an in-
4 dividual for whom a deduction under sec-
5 tion 151(c) is allowable to the taxpayer for
6 such taxable year.

7 “(B) LIMITATION TO 2 DEPENDENTS.—
8 Not more than 2 individuals may be taken into
9 account by the taxpayer under subparagraph
10 (A)(iii).

11 “(C) SPECIAL RULE FOR MARRIED INDIVIDUALS.—In the case of an individual—

12 “(i) who is married (within the mean-
13 ing of section 7703) as of the close of the
14 taxable year but does not file a joint return
15 for such year, and

16 “(ii) who does not live apart from
17 such individual’s spouse at all times during
18 the taxable year,

19 the limitation imposed by subparagraph (B)
20 shall be divided equally between the individual
21 and the individual’s spouse unless they agree on
22 a different division.

23 “(3) PHASEOUT OF CREDIT.—
24

“(A) IN GENERAL.—The amount which would (but for this paragraph) be taken into account under subsection (a) shall be reduced (but not below zero) by the amount determined under subparagraph (B).

“(B) AMOUNT OF REDUCTION.—The amount determined under this subparagraph is the amount which bears the same ratio to the amount which would be so taken into account for the taxable year as—

“(i) the excess of—

“(I) the taxpayer’s modified adjusted gross income for the preceding taxable year, over

“(II) \$15,000 (\$25,000 in the case of family coverage), bears to

“(ii) \$15,000 (\$35,000 in the case of family coverage).

“(C) MODIFIED ADJUSTED GROSS INCOME.—The term ‘modified adjusted gross income’ means adjusted gross income determined—

“(i) without regard to this section and sections 911, 931, and 933, and

1 “(ii) after application of sections 86,
2 135, 137, 219, 221, and 469.

3 “(4) COVERAGE MONTH.—For purposes of this
4 subsection—

5 “(A) IN GENERAL.—The term ‘coverage
6 month’ means, with respect to an individual,
7 any month if—

8 “(i) as of the first day of such month
9 such individual is covered by qualified
10 health insurance, and

11 “(ii) the premium for coverage under
12 such insurance for such month is paid by
13 the taxpayer.

14 “(B) EMPLOYER-SUBSIDIZED COV-
15 ERAGE.—

16 “(i) IN GENERAL.—Such term shall
17 not include any month for which such indi-
18 vidual is eligible to participate in any sub-
19 sidized health plan (within the meaning of
20 section 162(l)(2)) maintained by any em-
21 ployer of the taxpayer or of the spouse of
22 the taxpayer.

23 “(ii) PREMIUMS TO NONSUBSIDIZED
24 PLANS.—If an employer of the taxpayer or
25 the spouse of the taxpayer maintains a

1 health plan which is not a subsidized
 2 health plan (as so defined) and which con-
 3 stitutes qualified health insurance, em-
 4 ployee contributions to the plan shall be
 5 treated as amounts paid for qualified
 6 health insurance.

7 “(C) CAFETERIA PLAN AND FLEXIBLE
 8 SPENDING ACCOUNT BENEFICIARIES.—Such
 9 term shall not include any month during a tax-
 10 able year if any amount is not includible in the
 11 gross income of the taxpayer for such year
 12 under section 106 with respect to—

13 “(i) a benefit chosen under a cafeteria
 14 plan (as defined in section 125(d)), or

15 “(ii) a benefit provided under a flexi-
 16 ble spending or similar arrangement.

17 “(D) MEDICARE AND MEDICAID.—Such
 18 term shall not include any month with respect
 19 to an individual if, as of the first day of such
 20 month, such individual—

21 “(i) is entitled to any benefits under
 22 title XVIII of the Social Security Act, or

23 “(ii) is a participant in the program
 24 under title XIX or XXI of such Act.

1 “(E) CERTAIN OTHER COVERAGE.—Such
2 term shall not include any month during a tax-
3 able year with respect to an individual if, at any
4 time during such year, any benefit is provided
5 to such individual under—

6 “(i) chapter 89 of title 5, United
7 States Code,

8 “(ii) chapter 55 of title 10, United
9 States Code,

10 “(iii) chapter 17 of title 38, United
11 States Code, or

12 “(iv) any medical care program under
13 the Indian Health Care Improvement Act.

14 “(F) PRISONERS.—Such term shall not in-
15 clude any month with respect to an individual
16 if, as of the first day of such month, such indi-
17 vidual is imprisoned under Federal, State, or
18 local authority.

19 “(G) INSUFFICIENT PRESENCE IN UNITED
20 STATES.—Such term shall not include any
21 month during a taxable year with respect to an
22 individual if such individual is present in the
23 United States on fewer than 183 days during
24 such year (determined in accordance with sec-
25 tion 7701(b)(7)).

1 “(5) COORDINATION WITH DEDUCTION FOR
 2 HEALTH INSURANCE COSTS OF SELF-EMPLOYED IN-
 3 DIVIDUALS.—In the case of a taxpayer who is eligi-
 4 ble to deduct any amount under section 162(l) for
 5 the taxable year, this section shall apply only if the
 6 taxpayer elects not to claim any amount as a deduc-
 7 tion under such section for such year.

8 “(c) QUALIFIED HEALTH INSURANCE.—For pur-
 9 poses of this section, the term ‘qualified health insurance’
 10 means health insurance coverage (as defined in section
 11 9832(b)(1)), including coverage under a COBRA continu-
 12 ation provision (as defined in section 9832(d)(1)).

13 “(d) ARCHER MSA CONTRIBUTIONS.—If a deduction
 14 would be allowed under section 220 to the taxpayer for
 15 a payment for the taxable year to the Archer MSA of an
 16 individual, subsection (a) shall not apply to the taxpayer
 17 for such taxable year.

18 “(e) SPECIAL RULES.—

19 “(1) COORDINATION WITH MEDICAL EXPENSE
 20 DEDUCTION.—The amount which would (but for this
 21 paragraph) be taken into account by the taxpayer
 22 under section 213 for the taxable year shall be re-
 23 duced by the credit (if any) allowed by this section
 24 to the taxpayer for such year.

1 “(2) DENIAL OF CREDIT TO DEPENDENTS.—No
 2 credit shall be allowed under this section to any indi-
 3 vidual with respect to whom a deduction under sec-
 4 tion 151 is allowable to another taxpayer for a tax-
 5 able year beginning in the calendar year in which
 6 such individual’s taxable year begins.

7 “(3) COORDINATION WITH ADVANCE PAY-
 8 MENT.—Rules similar to the rules of section 32(g)
 9 shall apply to any credit to which this section ap-
 10 plies.

11 “(f) EXPENSES MUST BE SUBSTANTIATED.—A pay-
 12 ment for insurance to which subsection (a) applies may
 13 be taken into account under this section only if the tax-
 14 payer substantiates such payment in such form as the Sec-
 15 retary may prescribe.

16 “(g) REGULATIONS.—The Secretary shall prescribe
 17 such regulations as may be necessary to carry out the pur-
 18 poses of this section.”.

19 (b) INFORMATION REPORTING.—

20 (1) IN GENERAL.—Subpart B of part III of
 21 subchapter A of chapter 61 of the Internal Revenue
 22 Code of 1986 (relating to information concerning
 23 transactions with other persons) is amended by in-
 24 serting after section 6050T the following:

1 **“SEC. 6050U. RETURNS RELATING TO PAYMENTS FOR**
 2 **QUALIFIED HEALTH INSURANCE.**

3 “(a) IN GENERAL.—Any person who, in connection
 4 with a trade or business conducted by such person, re-
 5 ceives payments during any calendar year from any indi-
 6 vidual for coverage of such individual or any other indi-
 7 vidual under creditable health insurance, shall make the
 8 return described in subsection (b) (at such time as the
 9 Secretary may by regulations prescribe) with respect to
 10 each individual from whom such payments were received.

11 “(b) FORM AND MANNER OF RETURNS.—A return
 12 is described in this subsection if such return—

13 “(1) is in such form as the Secretary may pre-
 14 scribe, and

15 “(2) contains—

16 “(A) the name, address, and TIN of the
 17 individual from whom payments described in
 18 subsection (a) were received,

19 “(B) the name, address, and TIN of each
 20 individual who was provided by such person
 21 with coverage under creditable health insurance
 22 by reason of such payments and the period of
 23 such coverage,

24 “(C) the aggregate amount of payments
 25 described in subsection (a),

1 “(D) the qualified health insurance credit
 2 advance amount (as defined in section 7528(e))
 3 received by such person with respect to the indi-
 4 vidual described in subparagraph (A), and

5 “(E) such other information as the Sec-
 6 retary may reasonably prescribe.

7 “(c) CREDITABLE HEALTH INSURANCE.—For pur-
 8 poses of this section, the term ‘creditable health insurance’
 9 means qualified health insurance (as defined in section
 10 36(c)).

11 “(d) STATEMENTS TO BE FURNISHED TO INDIVID-
 12 UALS WITH RESPECT TO WHOM INFORMATION IS RE-
 13 QUIRED.—Every person required to make a return under
 14 subsection (a) shall furnish to each individual whose name
 15 is required under subsection (b)(2)(A) to be set forth in
 16 such return a written statement showing—

17 “(1) the name and address of the person re-
 18 quired to make such return and the phone number
 19 of the information contact for such person,

20 “(2) the aggregate amount of payments de-
 21 scribed in subsection (a) received by the person re-
 22 quired to make such return from the individual to
 23 whom the statement is required to be furnished,

24 “(3) the information required under subsection
 25 (b)(2)(B) with respect to such payments, and

1 “(4) the qualified health insurance credit ad-
 2 vance amount (as defined in section 7528(e)) re-
 3 ceived by such person with respect to the individual
 4 described in paragraph (2).

5 The written statement required under the preceding sen-
 6 tence shall be furnished on or before January 31 of the
 7 year following the calendar year for which the return
 8 under subsection (a) is required to be made.

9 “(e) RETURNS WHICH WOULD BE REQUIRED TO BE
 10 MADE BY 2 OR MORE PERSONS.—Except to the extent
 11 provided in regulations prescribed by the Secretary, in the
 12 case of any amount received by any person on behalf of
 13 another person, only the person first receiving such
 14 amount shall be required to make the return under sub-
 15 section (a).”.

16 (2) ASSESSABLE PENALTIES.—

17 (A) Subparagraph (B) of section
 18 6724(d)(1) of such Code (relating to defini-
 19 tions) is amended by redesignating clauses (xii)
 20 through (xviii) as clauses (xiii) through (xix),
 21 respectively, and by inserting after clause (xi)
 22 the following:

23 “(xii) section 6050U (relating to re-
 24 turns relating to payments for qualified
 25 health insurance),”.

1 (B) Paragraph (2) of section 6724(d) of
 2 such Code is amended by striking “or” at the
 3 end of subparagraph (AA), by striking the pe-
 4 riod at the end of the subparagraph (BB) and
 5 inserting “, or”, and by adding at the end the
 6 following:

7 “(CC) section 6050U(d) (relating to re-
 8 turns relating to payments for qualified health
 9 insurance).”.

10 (3) CLERICAL AMENDMENT.—The table of sec-
 11 tions for subpart B of part III of subchapter A of
 12 chapter 61 of such Code is amended by inserting
 13 after the item relating to section 6050T the fol-
 14 lowing:

“Sec. 6050U. Returns relating to payments for qualified health
 insurance.”.

15 (c) CRIMINAL PENALTY FOR FRAUD.—Subchapter B
 16 of chapter 75 of the Internal Revenue Code of 1986 (relat-
 17 ing to other offenses) is amended by adding at the end
 18 the following:

19 **“SEC. 7276. PENALTIES FOR OFFENSES RELATING TO**
 20 **HEALTH INSURANCE TAX CREDIT.**

21 “Any person who knowingly misuses Department of
 22 the Treasury names, symbols, titles, or initials to convey
 23 the false impression of association with, or approval or en-
 24 dorsement by, the Department of the Treasury of any in-

1 surance products or group health coverage in connection
 2 with the credit for health insurance costs under section
 3 36 shall on conviction thereof be fined not more than
 4 \$10,000, or imprisoned not more than 1 year, or both.”.

5 (d) CONFORMING AMENDMENTS.—

6 (1) Section 162(l) of the Internal Revenue Code
 7 of 1986 is amended by adding at the end the fol-
 8 lowing:

9 “(6) ELECTION TO HAVE SUBSECTION
 10 APPLY.—No deduction shall be allowed under para-
 11 graph (1) for a taxable year unless the taxpayer
 12 elects to have this subsection apply for such year.”.

13 (2) Paragraph (2) of section 1324(b) of title
 14 31, United States Code, is amended by inserting be-
 15 fore the period “, or from section 36 of such Code”.

16 (3) The table of sections for subpart C of part
 17 IV of subchapter A of chapter 1 of the Internal Rev-
 18 enue Code of 1986 is amended by striking the last
 19 item and inserting the following:

“Sec. 36. Health insurance costs for uninsured eligible individ-
 uals.

“Sec. 37. Overpayments of tax.”.

20 (4) The table of sections for subchapter B of
 21 chapter 75 of such Code is amended by adding at
 22 the end the following:

“Sec. 7276. Penalties for offenses relating to health insurance tax
 credit.”.

1 (e) EFFECTIVE DATES.—

2 (1) IN GENERAL.—Except as provided in para-
 3 graph (2), the amendments made by this section
 4 shall apply to taxable years beginning after Decem-
 5 ber 31, 2003, without regard to whether final regu-
 6 lations to carry out such amendments have been pro-
 7 mulgated by such date.

8 (2) PENALTIES.—The amendments made by
 9 subsections (c) and (d)(4) shall take effect on the
 10 date of the enactment of this Act.

11 **SEC. 202. ADVANCE PAYMENT OF CREDIT TO ISSUERS OF**
 12 **QUALIFIED HEALTH INSURANCE.**

13 (a) IN GENERAL.—Chapter 77 of the Internal Rev-
 14 enue Code of 1986 (relating to miscellaneous provisions)
 15 is amended by adding at the end the following:

16 **“SEC. 7528. ADVANCE PAYMENT OF HEALTH INSURANCE**
 17 **CREDIT FOR PURCHASERS OF QUALIFIED**
 18 **HEALTH INSURANCE.**

19 “(a) GENERAL RULE.—Every plan sponsor of a
 20 group health plan providing, or qualified health insurance
 21 issuer of, qualified health insurance to an eligible indi-
 22 vidual shall—

23 “(1) make qualified premium payments with re-
 24 spect to such individual in an amount equal to the

1 qualified health insurance credit advance amount,
2 and

3 “(2) treat such payments in the manner pro-
4 vided in subsection (g).

5 “(b) ELIGIBLE INDIVIDUAL.—For purposes of this
6 section, the term ‘eligible individual’ means any indi-
7 vidual—

8 “(1) who purchases qualified health insurance
9 (as defined in section 36(c)), and

10 “(2) for whom a qualified health insurance
11 credit eligibility certificate is in effect.

12 “(c) DEFINITIONS.—For purposes of this section—

13 “(1) QUALIFIED HEALTH INSURANCE
14 ISSUER.—The term ‘qualified health insurance
15 issuer’ means a health insurance issuer described in
16 section 9832(b)(2) (determined without regard to
17 the last sentence thereof) offering coverage in con-
18 nection with a group health plan.

19 “(2) GROUP HEALTH PLAN.—The term ‘group
20 health plan’ has the meaning given such term by
21 section 5000(b)(1) (determined without regard to
22 subsection (d) thereof).

23 “(3) QUALIFIED PREMIUM PAYMENTS.—The
24 term ‘qualified premium payments’ means any
25 amount paid or incurred, cost incurred, or health

1 coverage value provided, with respect to qualified
 2 health insurance for an eligible individual and the
 3 individual’s spouse and dependents. For purposes of
 4 the preceding sentence, in the case of a group health
 5 plan, the health coverage value is equal to the appli-
 6 cable premium under the plan for the qualified
 7 health insurance coverage provided to an eligible in-
 8 dividual and the individual’s spouse and dependents,
 9 as determined under section 4980B.

10 “(d) QUALIFIED HEALTH INSURANCE CREDIT ELI-
 11 GIBILITY CERTIFICATE.—For purposes of this section, a
 12 qualified health insurance credit eligibility certificate is a
 13 statement furnished by an individual to a plan sponsor
 14 of a group health plan or qualified health insurance issuer
 15 which—

16 “(1) certifies that the individual will be eligible
 17 to receive the credit provided by section 36 for the
 18 taxable year,

19 “(2) estimates the amount of such credit for
 20 such taxable year, and

21 “(3) provides such other information as the
 22 Secretary may require for purposes of this section.

23 “(e) QUALIFIED HEALTH INSURANCE CREDIT AD-
 24 VANCE AMOUNT.—For purposes of this section, the term
 25 ‘qualified health insurance credit advance amount’ means,

1 with respect to any plan sponsor of a group health plan
 2 providing, or qualified health insurance issuer of, qualified
 3 health insurance, the amount of credit allowable under
 4 section 36 to the individual for the taxable year which is
 5 attributable to the insurance provided to the individual by
 6 such sponsor or issuer.

7 “(f) REQUIRED DOCUMENTATION FOR RECEIPT OF
 8 PAYMENTS OF ADVANCE AMOUNT.—No payment of a
 9 qualified health insurance credit advance amount with re-
 10 spect to any eligible individual may be made under sub-
 11 section (a) unless the plan sponsor of the group health
 12 plan or qualified health insurance issuer provides to the
 13 Secretary—

14 “(1) the qualified health insurance credit eligi-
 15 bility certificate of such individual, and

16 “(2) the return relating to such individual
 17 under section 6050U.

18 “(g) QUALIFIED PREMIUM PAYMENTS TO BE
 19 TREATED AS PAYMENTS OF WITHHOLDING AMOUNTS
 20 AND CERTAIN EMPLOYER TAX.—

21 “(1) IN GENERAL.—For purposes of this title,
 22 qualified premium payments made or costs incurred
 23 by the sponsor of a group health plan, or any entity
 24 designated by the sponsor to make such payments or
 25 incur such costs—

1 “(A) shall not be treated as compensation,
2 and

3 “(B) shall be treated, in such manner as
4 provided by the Secretary, as made out of—

5 “(i) amounts required to be deposited
6 by the taxpayer as estimated income tax
7 under section 6654 or 6655,

8 “(ii) amounts required to be deducted
9 and withheld under section 3401 (relating
10 to wage withholding),

11 “(iii) amounts of the taxes imposed
12 under section 3111(a) or 50 percent of
13 taxes imposed under section 1401(a) (re-
14 lating to FICA employer taxes), or

15 “(iv) amounts required to be deducted
16 under section 3102 with respect to taxes
17 imposed under section 3101(a) or 50 per-
18 cent of taxes imposed under section
19 1401(a) (relating to FICA employee
20 taxes),

21 as if such sponsor, or such designated entity,
22 had paid to the Secretary an amount equal to
23 such payments.

24 “(2) QUALIFIED PREMIUM PAYMENTS EXCEED
25 TAXES DUE.—In the case of any entity, if for any

1 time period the aggregate qualified premium pay-
 2 ments exceed the amounts described in paragraph
 3 (1)(B), the Secretary shall reduce amounts described
 4 in such paragraph for any succeeding time period as
 5 necessary to reflect such excess.

6 “(3) FAILURE TO MAKE QUALIFIED PREMIUM
 7 PAYMENTS.—For purposes of this title (including
 8 penalties), failure to make a qualified premium pay-
 9 ment with respect to an eligible individual at the
 10 time provided therefor shall be treated as the failure
 11 at such time to deduct and withhold under chapter
 12 24 of such Code in an amount equal to the amount
 13 of such qualified premium payments.

14 “(h) REGULATIONS.—The Secretary shall prescribe
 15 such regulations as may be necessary to carry out the pur-
 16 poses of this section.”.

17 (b) CLERICAL AMENDMENT.—The table of sections
 18 for chapter 77 of the Internal Revenue Code of 1986 is
 19 amended by adding at the end the following:

“Sec. 7528. Advance payment of health insurance credit for pur-
 chasers of qualified health insurance.”.

20 (c) EFFECTIVE DATE.—The amendments made by
 21 this section shall take effect on January 1, 2005, without
 22 regard to whether final regulations to carry out such
 23 amendments have been promulgated by such date.

1 **CHAPTER 2—IMMEDIATE, FULL DEDUCT-**
 2 **IBILITY OF HEALTH INSURANCE**
 3 **COSTS OF SELF-EMPLOYED INDIVID-**
 4 **UALS**

5 **SEC. 205. DEDUCTION FOR 100 PERCENT OF HEALTH IN-**
 6 **SURANCE COSTS OF SELF-EMPLOYED INDI-**
 7 **VIDUALS.**

8 (a) IN GENERAL.—Paragraph (1) of section 162(l)
 9 of the Internal Revenue Code of 1986 is amended to read
 10 as follows:

11 “(1) ALLOWANCE OF DEDUCTION.—In the case
 12 of an individual who is an employee within the
 13 meaning of section 401(c)(1), there shall be allowed
 14 as a deduction under this section an amount equal
 15 to 100 percent of the amount paid during the tax-
 16 able year for insurance which constitutes medical
 17 care for the taxpayer and the taxpayer’s spouse and
 18 dependents.”.

19 (b) CLARIFICATION OF LIMITATIONS ON OTHER COV-
 20 ERAGE.—The first sentence of section 162(l)(2)(B) of the
 21 Internal Revenue Code of 1986 is amended to read as fol-
 22 lows: “Paragraph (1) shall not apply to any taxpayer for
 23 any calendar month for which the taxpayer participates
 24 in any subsidized health plan maintained by any employer

1 (other than an employer described in section 401(c)(4))
 2 of the taxpayer or the spouse of the taxpayer.”.

3 (c) EFFECTIVE DATE.—The amendments made by
 4 this section shall apply to taxable years beginning after
 5 December 31, 2002.

6 **Subtitle B—FamilyCare**

7 **SEC. 211. RENAMING OF TITLE XXI PROGRAM.**

8 (a) IN GENERAL.—The heading of title XXI of the
 9 Social Security Act (42 U.S.C. 1397aa et seq.) is amended
 10 to read as follows:

11 “TITLE XXI—FAMILYCARE PROGRAM”.

12 (b) PROGRAM REFERENCES.—Any reference in any
 13 provision of Federal law or regulation to “SCHIP” or
 14 “State children’s health insurance program” under title
 15 XXI of the Social Security Act shall be deemed a reference
 16 to the FamilyCare program under such title.

17 **SEC. 212. FAMILYCARE COVERAGE OF PARENTS UNDER** 18 **THE MEDICAID PROGRAM AND TITLE XXI.**

19 (a) INCENTIVES TO IMPLEMENT FAMILYCARE COV-
 20 ERAGE.—

21 (1) UNDER MEDICAID.—

22 (A) ESTABLISHMENT OF NEW OPTIONAL
 23 ELIGIBILITY CATEGORY.—Section
 24 1902(a)(10)(A)(ii) of the Social Security Act
 25 (42 U.S.C. 1396a(a)(10)(A)(ii)) is amended—

1 (i) by striking “or” at the end of sub-
 2 clause (XVII);

3 (ii) by adding “or” at the end of sub-
 4 clause (XVIII); and

5 (iii) by adding at the end the fol-
 6 lowing:

7 “(XIX) who are individuals de-
 8 scribed in subsection (k)(1) (relating
 9 to parents of categorically eligible chil-
 10 dren);”.

11 (B) PARENTS DESCRIBED.—Section 1902
 12 of the Social Security Act is further amended
 13 by inserting after subsection (j) the following:

14 “(k)(1)(A) Individuals described in this paragraph
 15 are individuals—

16 “(i) who are the parents of an individual who
 17 is under 19 years of age (or such higher age as the
 18 State may have elected under section 1902(l)(1)(D))
 19 and who is eligible for medical assistance under sub-
 20 section (a)(10)(A);

21 “(ii) who are not otherwise eligible for medical
 22 assistance under such subsection, under section
 23 1931, or under a waiver approved under section
 24 1115 or otherwise (except under subsection
 25 (a)(10)(A)(ii)(XIX)); and

1 “(iii) whose family income exceeds the income
2 level applicable under the State plan under part A
3 of title IV as in effect as of July 16, 1996, but does
4 not exceed the highest income level applicable to a
5 child in the family under this title.

6 “(B) In establishing an income eligibility level for in-
7 dividuals described in this paragraph, a State may vary
8 such level consistent with the various income levels estab-
9 lished under subsection (l)(2) based on the ages of chil-
10 dren described in subsection (l)(1) in order to ensure, to
11 the maximum extent possible, that such individuals shall
12 be enrolled in the same program as their children.

13 “(C) An individual may not be treated as being de-
14 scribed in this paragraph unless, at the time of the individ-
15 ual’s enrollment under this title, the child referred to in
16 subparagraph (A)(i) of the individual is also enrolled
17 under this title.

18 “(D) In this subsection, the term ‘parent’ includes
19 an individual treated as a caregiver for purposes of car-
20 rying out section 1931.

21 “(2) In the case of a parent described in paragraph
22 (1) who is also the parent of a child who is eligible for
23 child health assistance under title XXI, the State may
24 elect (on a uniform basis) to cover all such parents under
25 section 2111 or under this title.”.

1 (C) ENHANCED MATCHING FUNDS AVAIL-
 2 ABLE IF CERTAIN CONDITIONS MET.—Section
 3 1905 of the Social Security Act (42 U.S.C.
 4 1396d) is amended—

5 (i) in the fourth sentence of sub-
 6 section (b), by striking “or subsection
 7 (u)(3)” and inserting “, (u)(3), or (u)(4)”;
 8 and

9 (ii) in subsection (u)—

10 (I) by redesignating paragraph
 11 (4) as paragraph (6), and

12 (II) by inserting after paragraph
 13 (3) the following:

14 “(4) For purposes of subsection (b) and section
 15 2105(a)(1):

16 “(A) FAMILYCARE PARENTS.—The expendi-
 17 tures described in this subparagraph are the expend-
 18 itures described in the following clauses (i) and (ii):

19 “(i) PARENTS.—If the conditions described
 20 in clause (iii) are met, expenditures for medical
 21 assistance for parents described in section
 22 1902(k)(1) and for parents who would be de-
 23 scribed in such section but for the fact that
 24 they are eligible for medical assistance under

1 section 1931 or under a waiver approved under
2 section 1115.

3 “(ii) CERTAIN PREGNANT WOMEN.—Ex-
4 penditures for medical assistance for pregnant
5 women under section 1902(l)(1)(A) in a family
6 the income of which exceeds the income level
7 applicable under section 1902(l)(2)(A) to a
8 family of the size involved as of January 1,
9 2003.

10 “(iii) CONDITIONS.—The conditions de-
11 scribed in this clause are the following:

12 “(I) The State has a State child
13 health plan under title XXI which (wheth-
14 er implemented under such title or under
15 this title) has an effective income level for
16 children that is at least 200 percent of the
17 poverty line.

18 “(II) Such State child health plan
19 does not limit the acceptance of applica-
20 tions, does not use a waiting list for chil-
21 dren who meet eligibility standards to
22 qualify for assistance, and provides bene-
23 fits to all children in the State who apply
24 for and meet eligibility standards.

1 “(III) The State plans under this title
 2 and title XXI do not provide coverage for
 3 parents with higher family income without
 4 covering parents with a lower family in-
 5 come.

6 “(IV) The State does not apply an in-
 7 come level for parents that is lower than
 8 the effective income level (expressed as a
 9 percent of the poverty line) that has been
 10 specified under the State plan under title
 11 XIX (including under a waiver authorized
 12 by the Secretary or under section
 13 1902(r)(2)), as of January 1, 2003, to be
 14 eligible for medical assistance as a parent
 15 under this title.

16 “(iv) DEFINITIONS.—For purposes of this
 17 subsection:

18 “(I) The term ‘parent’ has the mean-
 19 ing given such term for purposes of section
 20 1902(k)(1).

21 “(II) The term ‘poverty line’ has the
 22 meaning given such term in section
 23 2110(c)(5).”.

24 (D) APPROPRIATION FROM TITLE XXI AL-
 25 LOTMENT FOR CERTAIN MEDICAID EXPANSION

1 COSTS.—Subparagraph (B) of section
 2 2105(a)(1) of the Social Security Act, as
 3 amended by section 217(a), is amended to read
 4 as follows:

5 “(B) FAMILYCARE PARENTS.—Expendi-
 6 tures for medical assistance that is attributable
 7 to expenditures described in section
 8 1905(u)(4)(A).”.

9 (E) ONLY COUNTING ENHANCED PORTION
 10 FOR COVERAGE OF ADDITIONAL PREGNANT
 11 WOMEN.—Section 1905 of the Social Security
 12 Act (42 U.S.C. 1396d) is amended—

13 (i) in the fourth sentence of sub-
 14 section (b), by inserting “(except in the
 15 case of expenditures described in sub-
 16 section (u)(5))” after “do not exceed”; and

17 (ii) in subsection (u), by inserting
 18 after paragraph (4) (as inserted by sub-
 19 paragraph (C)), the following:

20 “(5) For purposes of the fourth sentence of sub-
 21 section (b) and section 2105(a), the following payments
 22 under this title do not count against a State’s allotment
 23 under section 2104:

24 “(A) REGULAR FMAP FOR EXPENDITURES FOR
 25 PREGNANT WOMEN WITH INCOME ABOVE JANUARY

1 1, 2003 INCOME LEVEL AND BELOW 185 PERCENT OF
 2 POVERTY.—The portion of the payments made for
 3 expenditures described in paragraph (4)(A)(ii) that
 4 represents the amount that would have been paid if
 5 the enhanced FMAP had not been substituted for
 6 the Federal medical assistance percentage.”.

7 (2) UNDER TITLE XXI.—

8 (A) FAMILYCARE COVERAGE.—Title XXI
 9 of the Social Security Act (42 U.S.C. 1397aa et
 10 seq.) is amended by adding at the end the fol-
 11 lowing:

12 **“SEC. 2111. OPTIONAL FAMILYCARE COVERAGE OF PAR-**
 13 **ENTS OF TARGETED LOW-INCOME CHILDREN.**

14 “(a) OPTIONAL COVERAGE.—Notwithstanding any
 15 other provision of this title, a State child health plan may
 16 provide for coverage, through an amendment to its State
 17 child health plan under section 2102, of FamilyCare as-
 18 sistance for individuals who are targeted low-income par-
 19 ents in accordance with this section, but only if—

20 “(1) the State meets the conditions described in
 21 section 1905(u)(4)(A)(iii); and

22 “(2) the State elects to provide medical assist-
 23 ance under section 1902(a)(10)(A)(ii)(XIX), under
 24 section 1931, or under a waiver under section 1115
 25 to individuals described in section 1902(k)(1)(A)(i)

1 and elects an applicable income level for such indi-
 2 viduals that consistent with paragraphs (1)(B) and
 3 (2) of section 1902(k), ensures to the maximum ex-
 4 tent possible, that those individuals shall be enrolled
 5 in the same program as their children if their chil-
 6 dren are eligible for coverage under title XIX (in-
 7 cluding under a waiver authorized by the Secretary
 8 or under section 1902(r)(2)).”.

9 “(b) DEFINITIONS.—For purposes of this title:

10 “(1) FAMILYCARE ASSISTANCE.—The term
 11 ‘FamilyCare assistance’ has the meaning given the
 12 term child health assistance in section 2110(a) as if
 13 any reference to targeted low-income children were
 14 a reference to targeted low-income parents.

15 “(2) TARGETED LOW-INCOME PARENT.—The
 16 term ‘targeted low-income parent’ has the meaning
 17 given the term targeted low-income child in section
 18 2110(b) as if the reference to a child were deemed
 19 a reference to a parent (as defined in paragraph (3))
 20 of the child; except that in applying such section—

21 “(A) there shall be substituted for the in-
 22 come level described in paragraph (1)(B)(ii)(I)
 23 the applicable income level in effect for a tar-
 24 geted low-income child;

1 “(B) in paragraph (3), January 1, 2003,
2 shall be substituted for July 1, 1997; and

3 “(C) in paragraph (4), January 1, 2003,
4 shall be substituted for March 31, 1997.

5 “(3) PARENT.—The term ‘parent’ includes an
6 individual treated as a caregiver for purposes of car-
7 rying out section 1931.

8 “(4) OPTIONAL TREATMENT OF PREGNANT
9 WOMEN AS PARENTS.—A State child health plan
10 may treat a pregnant woman who is not otherwise
11 a parent as a targeted low-income parent for pur-
12 poses of this section but only if the State has estab-
13 lished an income level under section 1902(l)(2)(A)(i)
14 for pregnant women that is at least 185 percent of
15 the income official poverty line described in such sec-
16 tion.

17 “(c) REFERENCES TO TERMS AND SPECIAL
18 RULES.—In the case of, and with respect to, a State pro-
19 viding for coverage of FamilyCare assistance to targeted
20 low-income parents under subsection (a), the following
21 special rules apply:

22 “(1) Any reference in this title (other than sub-
23 section (b)) to a targeted low-income child is deemed
24 to include a reference to a targeted low-income par-
25 ent.

1 “(2) Any such reference to child health assist-
 2 ance with respect to such parents is deemed a ref-
 3 erence to FamilyCare assistance.

4 “(3) In applying section 2103(e)(3)(B) in the
 5 case of a family provided coverage under this sec-
 6 tion, the limitation on total annual aggregate cost-
 7 sharing shall be applied to the entire family.

8 “(4) In applying section 2110(b)(4), any ref-
 9 erence to ‘section 1902(l)(2) or 1905(n)(2) (as se-
 10 lected by a State)’ is deemed a reference to the in-
 11 come level applicable to parents under section 1931
 12 or under a waiver approved under section 1115, or,
 13 in the case of a pregnant woman described in sub-
 14 section (b)(4), the income level established under
 15 section 1902(l)(2)(A).

16 “(5) In applying section 2102(b)(3)(B), any
 17 reference to children is deemed a reference to par-
 18 ents.”.

19 (B) ADDITIONAL ALLOTMENT FOR STATES
 20 PROVIDING FAMILYCARE.—

21 (i) IN GENERAL.—Section 2104 of the
 22 Social Security Act (42 U.S.C. 1397dd) is
 23 amended by inserting after subsection (c)
 24 the following:

1 “(d) ADDITIONAL ALLOTMENTS FOR STATE PRO-
2 VIDING FAMILYCARE.—

3 “(1) APPROPRIATION; TOTAL ALLOTMENT.—

4 For the purpose of providing additional allotments
5 to States to provide FamilyCare coverage under sec-
6 tion 2111, there is appropriated, out of any money
7 in the Treasury not otherwise appropriated—

8 “(A) for fiscal year 2004, \$2,000,000,000;

9 “(B) for fiscal year 2005, \$3,000,000,000;

10 “(C) for fiscal year 2006, \$3,000,000,000;

11 “(D) for fiscal year 2007, \$6,000,000,000;

12 “(E) for fiscal year 2008, \$7,000,000,000;

13 “(F) for fiscal year 2009, \$8,000,000,000;

14 “(G) for fiscal year 2010, \$9,000,000,000;

15 “(H) for fiscal year 2011,

16 \$10,000,000,000; and

17 “(I) for fiscal year 2012 and each fiscal
18 year thereafter, the amount of the allotment
19 provided under this paragraph for the preceding
20 fiscal year increased by the percentage increase
21 (if any) in the medical care expenditure cat-
22 egory of the Consumer Price Index for All
23 Urban Consumers (United States city average).

24 “(2) STATE AND TERRITORIAL ALLOTMENTS.—

1 “(A) IN GENERAL.—In addition to the al-
 2 lotments provided under subsections (b) and
 3 (c), subject to paragraphs (3) and (4), of the
 4 amount available for the additional allotments
 5 under paragraph (1) for a fiscal year, the Sec-
 6 retary shall allot to each State with a State
 7 child health plan approved under this title—

8 “(i) in the case of such a State other
 9 than a commonwealth or territory de-
 10 scribed in clause (ii), the same proportion
 11 as the proportion of the State’s allotment
 12 under subsection (b) (determined without
 13 regard to subsection (f)) to 98.95 percent
 14 of the total amount of the allotments
 15 under such section for such States eligible
 16 for an allotment under this subparagraph
 17 for such fiscal year; and

18 “(ii) in the case of a commonwealth or
 19 territory described in subsection (c)(3), the
 20 same proportion as the proportion of the
 21 commonwealth’s or territory’s allotment
 22 under subsection (c) (determined without
 23 regard to subsection (f)) to 1.05 percent of
 24 the total amount of the allotments under
 25 such section for commonwealths and terri-

1 tories eligible for an allotment under this
2 subparagraph for such fiscal year.

3 “(B) AVAILABILITY AND REDISTRIBUTION
4 OF UNUSED ALLOTMENTS.—In applying sub-
5 sections (e) and (f) with respect to additional
6 allotments made available under this subsection,
7 the procedures established under such sub-
8 sections shall ensure such additional allotments
9 are only made available to States which have
10 elected to provide coverage under section 2111.

11 “(3) USE OF ADDITIONAL ALLOTMENT.—Addi-
12 tional allotments provided under this subsection are
13 not available for amounts expended before October
14 1, 2002. Such amounts are available for amounts ex-
15 pended on or after such date for child health assist-
16 ance for targeted low-income children, as well as for
17 FamilyCare assistance.

18 “(4) REQUIRING ELECTION TO PROVIDE
19 FAMILYCARE COVERAGE.—No payments may be
20 made to a State under this title from an allotment
21 provided under this subsection unless the State has
22 made an election to provide FamilyCare assist-
23 ance.”.

1 (ii) CONFORMING AMENDMENTS.—

2 Section 2104 of the Social Security Act
3 (42 U.S.C. 1397dd) is amended—

4 (I) in subsection (a), by inserting
5 “subject to subsection (d),” after
6 “under this section,”;

7 (II) in subsection (b)(1), by in-
8 serting “and subsection (d)” after
9 “Subject to paragraph (4)”; and

10 (III) in subsection (c)(1), by in-
11 serting “subject to subsection (d),”
12 after “for a fiscal year,”.

13 (C) NO COST-SHARING FOR PREGNANCY-
14 RELATED BENEFITS.—Section 2103(e)(2) of
15 the Social Security Act (42 U.S.C.
16 1397cc(e)(2)) is amended—

17 (i) in the heading, by inserting “AND
18 PREGNANCY-RELATED SERVICES” after
19 “PREVENTIVE SERVICES”; and

20 (ii) by inserting before the period at
21 the end the following: “and for pregnancy-
22 related services”.

23 (3) EFFECTIVE DATE.—The amendments made
24 by this subsection apply to items and services fur-
25 nished on or after October 1, 2003, whether or not

1 regulations implementing such amendments have
 2 been issued.

3 (b) RULES FOR IMPLEMENTATION BEGINNING WITH
 4 FISCAL YEAR 2006.—

5 (1) REQUIRED COVERAGE OF FAMILYCARE PAR-
 6 ENTS.—Section 1902(a)(10)(A)(i) of the Social Se-
 7 curity Act (42 U.S.C. 1396a(a)(10)(A)(i)) is amend-
 8 ed—

9 (A) by striking “or” at the end of sub-
 10 clause (VI);

11 (B) by striking the semicolon at the end of
 12 subclause (VII) and insert “, or”; and

13 (C) by adding at the end the following:

14 “(VIII) who are described in sub-
 15 section (k)(1) (or would be described
 16 if subparagraph (A)(ii) of such sub-
 17 section did not apply) and who are in
 18 families with incomes that do not ex-
 19 ceed 100 percent of the poverty line
 20 applicable to a family of the size in-
 21 volved;”.

22 (2) EXPANSION OF AVAILABILITY OF EN-
 23 HANCED MATCH UNDER MEDICAID FOR PRE-CHIP
 24 EXPANSIONS.—Paragraph (4) of section 1905(u) of

1 the Social Security Act (42 U.S.C. 1396d(u)), as in-
 2 serted by subsection (a)(1)(C), is amended—

3 (A) by amending clause (ii) of subpara-
 4 graph (A) to read as follows:

5 “(ii) CERTAIN PREGNANT WOMEN.—Ex-
 6 penditures for medical assistance for pregnant
 7 women under section 1902(l)(1)(A) in a family
 8 the income of which exceeds the 133 percent of
 9 the income official poverty line.”; and

10 (B) by adding at the end the following:

11 “(B) CHILDREN IN FAMILIES WITH INCOME
 12 ABOVE MEDICAID MANDATORY LEVEL NOT PRE-
 13 VIOUSLY DESCRIBED.—The expenditures described
 14 in this subparagraph are expenditures (other than
 15 expenditures described in paragraph (2) or (3)) for
 16 medical assistance made available to any child who
 17 is eligible for assistance under section
 18 1902(a)(10)(A) (other than under clause (i)) and
 19 the income of whose family exceeds the minimum in-
 20 come level required under subsection 1902(l)(2) (or,
 21 if higher, the minimum level required under section
 22 1931 for that State) for a child of the age involved
 23 (treating any child who is 19 or 20 years of age as
 24 being 18 years of age).”.

1 (3) OFFSET OF ADDITIONAL EXPENDITURES
 2 FOR ENHANCED MATCH FOR PRE-CHIP EXPANSION;
 3 ELIMINATION OF OFFSET FOR REQUIRED COVERAGE
 4 OF FAMILYCARE PARENTS.—

5 (A) IN GENERAL.—Section 1905(u)(5) of
 6 the Social Security Act (42 U.S.C.
 7 1396d(u)(5)), as added by subsection (a)(1)(E),
 8 is amended—

9 (i) by amending subparagraph (A) to
 10 read as follows:

11 “(A) REGULAR FMAP FOR EXPENDITURES FOR
 12 PREGNANT WOMEN WITH INCOME ABOVE 133 PER-
 13 CENT OF POVERTY.—The portion of the payments
 14 made for expenditures described in paragraph
 15 (4)(A)(ii) that represents the amount that would
 16 have been paid if the enhanced FMAP had not been
 17 substituted for the Federal medical assistance per-
 18 centage.”; and

19 (ii) by adding at the end the fol-
 20 lowing:

21 “(B) FAMILYCARE PARENTS UNDER 100 PER-
 22 CENT OF POVERTY.—Payments for expenditures de-
 23 scribed in paragraph (4)(A)(i) in the case of parents
 24 whose income does not exceed 100 percent of the in-

1 come official poverty line applicable to a family of
2 the size involved.

3 “(C) REGULAR FMAP FOR EXPENDITURES FOR
4 CERTAIN CHILDREN IN FAMILIES WITH INCOME
5 ABOVE MEDICAID MANDATORY LEVEL.—The portion
6 of the payments made for expenditures described in
7 paragraph (4)(B) that represents the amount that
8 would have been paid if the enhanced FMAP had
9 not been substituted for the Federal medical assist-
10 ance percentage.”.

11 (B) CONFORMING AMENDMENTS.—Sub-
12 paragraph (B) of section 2105(a)(1) of the So-
13 cial Security Act, as amended by section 217(a)
14 and subsection (a)(1)(D), is amended to read as
15 follows:

16 “(B) CERTAIN FAMILYCARE PARENTS AND
17 OTHERS.—Expenditures for medical assistance
18 that is attributable to expenditures described in
19 section 1905(u)(4), except as provided in sec-
20 tion 1905(u)(5).”.

21 (4) EFFECTIVE DATE.—The amendments made
22 by this subsection apply as of October 1, 2005, to
23 fiscal years beginning on or after such date and to
24 expenditures under the State plan on and after such

1 date, whether or not regulations implementing such
 2 amendments have been issued.

3 (c) MAKING TITLE XXI BASE ALLOTMENTS PERMA-
 4 NENT.—Section 2104(a) of the Social Security Act (42
 5 U.S.C. 1397dd(a)) is amended—

6 (1) by striking “and” at the end of paragraph
 7 (9);

8 (2) by striking the period at the end of para-
 9 graph (10) and inserting “; and”; and

10 (3) by adding at the end the following:

11 “(11) for fiscal year 2009 and each fiscal year
 12 thereafter, the amount of the allotment provided
 13 under this subsection for the preceding fiscal year
 14 increased by the percentage increase (if any) in the
 15 medical care expenditure category of the Consumer
 16 Price Index for All Urban Consumers (United States
 17 city average).”.

18 (d) OPTIONAL APPLICATION OF PRESUMPTIVE ELI-
 19 GIBILITY PROVISIONS TO PARENTS.—Section 1920A of
 20 the Social Security Act (42 U.S.C. 1396r–1a) is amended
 21 by adding at the end the following:

22 “(e) A State may elect to apply the previous provi-
 23 sions of this section to provide for a period of presumptive
 24 eligibility for medical assistance for a parent (as defined

1 for purposes of section 1902(k)(1)) of a child with respect
 2 to whom such a period is provided under this section.”.

3 (e) CONFORMING AMENDMENTS.—

4 (1) ELIGIBILITY CATEGORIES.—Section
 5 1905(a) of the Social Security Act (42 U.S.C.
 6 1396d(a)) is amended, in the matter before para-
 7 graph (1)—

8 (A) by striking “or” at the end of clause
 9 (xii);

10 (B) by inserting “or” at the end of clause
 11 (xiii); and

12 (C) by inserting after clause (xiii) the fol-
 13 lowing:

14 “(xiv) who are parents described (or treated as
 15 if described) in section 1902(k)(1),”.

16 (2) INCOME LIMITATIONS.—Section 1903(f)(4)
 17 of the Social Security Act (42 U.S.C. 1396b(f)(4))
 18 is amended—

19 (A) effective October 1, 2005, by inserting
 20 “1902(a)(10)(A)(i)(VIII),” after

21 “1902(a)(10)(A)(i)(VII),”; and

22 (B) by inserting
 23 “1902(a)(10)(A)(ii)(XIX),” after

24 “1902(a)(10)(A)(ii)(XVIII),”.

1 (3) CONFORMING AMENDMENT RELATING TO
 2 NO WAITING PERIOD FOR PREGNANT WOMEN.—Sec-
 3 tion 2102(b)(1)(B) of the Social Security Act (42
 4 U.S.C. 1397bb(b)(1)(B)) is amended—

5 (A) by striking “, and” at the end of
 6 clause (i) and inserting a semicolon;

7 (B) by striking the period at the end of
 8 clause (ii) and inserting “; and”; and

9 (C) by adding at the end the following:

10 “(iii) may not apply a waiting period
 11 (including a waiting period to carry out
 12 paragraph (3)(C)) in the case of a targeted
 13 low-income parent who is pregnant.”.

14 **SEC. 213. OPTIONAL COVERAGE OF CHILDREN THROUGH**
 15 **AGE 20 UNDER THE MEDICAID PROGRAM AND**
 16 **TITLE XXI.**

17 (a) MEDICAID.—

18 (1) IN GENERAL.—Section 1902(l)(1)(D) of the
 19 Social Security Act (42 U.S.C. 1396a(l)(1)(D)) is
 20 amended by inserting “(or, at the election of a
 21 State, 20 or 21 years of age)” after “19 years of
 22 age”.

23 (2) CONFORMING AMENDMENTS.—

24 (A) Section 1902(e)(3)(A) of the Social Se-
 25 curity Act (42 U.S.C. 1396a(e)(3)(A)) is

1 amended by inserting “(or 1 year less than the
2 age the State has elected under subsection
3 (l)(1)(D))” after “18 years of age”.

4 (B) Section 1902(e)(12) of the Social Se-
5 curity Act (42 U.S.C. 1396a(e)(12)) is amend-
6 ed by inserting “or such higher age as the State
7 has elected under subsection (l)(1)(D)” after
8 “19 years of age”.

9 (C) Section 1920A(b)(1) of the Social Se-
10 curity Act (42 U.S.C. 1396r-1a(b)(1)) is
11 amended by inserting “or such higher age as
12 the State has elected under section
13 1902(l)(1)(D)” after “19 years of age”.

14 (D) Section 1928(h)(1) of the Social Secu-
15 rity Act (42 U.S.C. 1396s(h)(1)) is amended by
16 inserting “or 1 year less than the age the State
17 has elected under section 1902(l)(1)(D)” before
18 the period at the end.

19 (E) Section 1932(a)(2)(A) of the Social
20 Security Act (42 U.S.C. 1396u-2(a)(2)(A)) is
21 amended by inserting “(or such higher age as
22 the State has elected under section
23 1902(l)(1)(D))” after “19 years of age”.

24 (b) TITLE XXI.—Section 2110(c)(1) of the Social
25 Security Act (42 U.S.C. 1397jj(c)(1)) is amended by in-

1 serting “(or such higher age as the State has elected under
2 section 1902(l)(1)(D))”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section take effect on October 1, 2003, and apply to
5 medical assistance and child health assistance provided on
6 or after such date, whether or not regulations imple-
7 menting such amendments have been issued.

8 **SEC. 214. INCREASE IN CHIP ALLOTMENT FOR EACH OF**
9 **FISCAL YEARS 2002 THROUGH 2004.**

10 Paragraphs (5), (6), and (7) of section 2104(a) of
11 the Social Security Act (42 U.S.C. 1397dd(a)) are amend-
12 ed by striking “\$3,150,000,000” each place it appears and
13 inserting “\$4,150,000,000”.

14 **SEC. 215. ADDITIONAL CHIP REVISIONS.**

15 (a) LIMITING COST-SHARING TO 2.5 PERCENT FOR
16 FAMILIES WITH INCOME BELOW 150 PERCENT OF POV-
17 ERTY.—Section 2103(e)(3)(A) of the Social Security Act
18 (42 U.S.C. 1397cc(e)(3)(A)) is amended—

19 (1) by striking “and” at the end of clause (i);

20 (2) by striking the period at the end of clause

21 (ii) and inserting “; and”; and

22 (3) by adding at the end the following new
23 clause:

24 “(iii) total annual aggregate cost-
25 sharing described in clauses (i) and (ii)

1 with respect to all such targeted low-in-
 2 come children in a family under this title
 3 that exceeds 2.5 percent of such family’s
 4 income for the year involved.”.

5 (b) REPORTING OF ENROLLMENT DATA.—

6 (1) QUARTERLY REPORTS.—Section 2107(b)(1)
 7 of such Act (42 U.S.C. 1397gg(b)(1)) is amended by
 8 adding at the end the following: “In quarterly re-
 9 ports on enrollment required under this paragraph,
 10 a State shall include information on the age, gender,
 11 race, ethnicity, service delivery system, and family
 12 income of individuals enrolled.”.

13 (2) ANNUAL REPORTS.—Section
 14 2108(b)(1)(B)(i) of such Act (42 U.S.C.
 15 1397hh(b)(1)(B)(i)) is amended by inserting “pri-
 16 mary language of enrollees,” after “family income,”.

17 (c) EMPLOYER COVERAGE WAIVER CHANGES.—Sec-
 18 tion 2105(c)(3) of such Act (42 U.S.C. 1397ee(c)(3)) is
 19 amended—

20 (1) by redesignating subparagraphs (A) and
 21 (B) as clauses (i) and (ii) and indenting appro-
 22 priately;

23 (2) by designating the matter beginning with
 24 “Payment may be made” as a subparagraph (A)

1 with the heading “IN GENERAL” and indenting ap-
 2 propriately;

3 (3) in subparagraph (A) (as so designated)—

4 (A) in the matter preceding clause (i) (as
 5 redesignated by paragraph (1)), by striking
 6 “targeted low-income children” and inserting “a
 7 targeted low-income child, a targeted low-in-
 8 come parent, or a pregnant woman who is
 9 treated as a targeted low-income parent under
 10 section 2111(b)(4)”;

11 (B) in clause (i) (as so redesignated), by
 12 striking “children” and inserting “child, tar-
 13 geted low-income parent, or pregnant woman
 14 treated as such a parent”; and

15 (C) in clause (ii) (as so redesignated), by
 16 striking “children” and inserting “child, parent,
 17 or pregnant women”; and

18 (4) by adding at the end the following new sub-
 19 paragraphs:

20 “(B) APPLICATION OF REQUIREMENTS.—

21 In carrying out subparagraph (A)—

22 “(i) the Secretary shall not require a
 23 minimum employer contribution level that
 24 is separate from the requirement of cost-
 25 effectiveness under subparagraph (A)(i),

1 but a State shall identify a reasonable min-
2 imum employer contribution level that is
3 based on data demonstrating that such a
4 level is representative to the employer-
5 sponsored insurance market in the State
6 and shall monitor employer contribution
7 levels over time to determine whether sub-
8 stitution is occurring and report the find-
9 ings in annual reports under section
10 2108(a);

11 “(ii) the State shall establish a wait-
12 ing period of at least 6 months without
13 group health coverage, but may establish
14 reasonable exceptions to such period and
15 shall not apply such a waiting period to a
16 child who is provided coverage under a
17 group health plan under section 1906;

18 “(iii) subject to clause (iv), the State
19 shall provide satisfactory assurances that
20 the minimum benefits and cost-sharing
21 protections established under this title are
22 provided, either through the coverage
23 under subparagraph (A) or as a supple-
24 ment to such coverage; and

1 “(iv) coverage under such subpara-
 2 graph shall not be considered to violate
 3 clause (iii) because it does not comply with
 4 requirements relating to reviews of health
 5 service decisions if the enrollee involved is
 6 provided the option of being provided bene-
 7 fits directly under this title.

8 “(C) ACCESS TO EXTERNAL REVIEW PROC-
 9 ESS.—In carrying out subparagraph (A), if a
 10 State provides coverage under a group health
 11 plan that does not meet the following external
 12 review requirements, the State must give appli-
 13 cants and enrollees (at initial enrollment and at
 14 each redetermination of eligibility) the option to
 15 obtain health benefits coverage other than
 16 through that group health plan:

17 “(i) The enrollee has an opportunity
 18 for external review of a—

19 “(I) delay, denial, reduction, sus-
 20 pension, or termination of health serv-
 21 ices, in whole or in part, including a
 22 determination about the type or level
 23 of services; and

1 “(II) failure to approve, furnish,
2 or provide payment for health services
3 in a timely manner.

4 “(ii) The external review is conducted
5 by the State or a impartial contractor
6 other than the contractor responsible for
7 the matter subject to external review.

8 “(iii) The external review decision is
9 made on a timely basis in accordance with
10 the medical needs of the patient. If the
11 medical needs of the patient do not dictate
12 a shorter time frame, the review must be
13 completed—

14 “(I) within 90 calendar days of
15 the date of the request for internal or
16 external review; or

17 “(II) within 72 hours if the en-
18 rollee’s physician or plan determines
19 that the deadline under subclause (I)
20 could seriously jeopardize the enroll-
21 ee’s life or health or ability to attain,
22 maintain, or regain maximum func-
23 tion (except that a State may extend
24 the 72-hour deadline by up to 14 days
25 if the enrollee requests an extension).

1 “(iv) The external review decision
2 shall be in writing.

3 “(v) Applicants and enrollees have an
4 opportunity—

5 “(I) to represent themselves or
6 have representatives of their choosing
7 in the review process;

8 “(II) timely review their files and
9 other applicable information relevant
10 to the review of the decision; and

11 “(III) fully participate in the re-
12 view process, whether the review is
13 conducted in person or in writing, in-
14 cluding by presenting supplemental
15 information during the review proc-
16 ess.”.

17 (d) SENSE OF THE SENATE REGARDING AUTHORITY
18 TO USE SCHIP FUNDS TO PURCHASE FAMILY COV-
19 ERAGE.—It is the sense of the Senate that section
20 2105(c)(3) of the Social Security Act (42 U.S.C.
21 1397ee(c)(3)) permits States to use funds provided under
22 the State children’s health insurance program established
23 under title XXI of that Act (42 U.S.C. 1397aa et seq.)
24 to help low-income working families and pregnant women

1 eligible for assistance under that program pay their share
 2 of employer-sponsored health insurance coverage.

3 (e) EFFECTIVE DATE.—The amendments made by
 4 this section apply as of October 1, 2003, whether or not
 5 regulations implementing such amendments have been
 6 issued.

7 **SEC. 216. LIMITATIONS ON CONFLICTS OF INTEREST.**

8 (a) LIMITATION ON CONFLICTS OF INTEREST IN
 9 MARKETING ACTIVITIES.—

10 (1) TITLE XXI.—Section 2105(c) of the Social
 11 Security Act (42 U.S.C. 300aa–5(c)) is amended by
 12 adding at the end the following:

13 “(8) LIMITATION ON EXPENDITURES FOR MAR-
 14 KETING ACTIVITIES.—Amounts expended by a State
 15 for the use of an administrative vendor in marketing
 16 health benefits coverage to low-income children
 17 under this title shall not be considered, for purposes
 18 of subsection (a)(2)(D), to be reasonable costs to ad-
 19 minister the plan unless the following conditions are
 20 met with respect to the vendor:

21 “(A) The vendor is independent of any en-
 22 tity offering the coverage in the same area of
 23 the State in which the vendor is conducting
 24 marketing activities.

“(B) No person who is an owner, employee, consultant, or has a contract with the vendor either has any direct or indirect financial interest with such an entity or has been excluded from participation in the program under this title or title XVIII or XIX or debarred by any Federal agency, or subject to a civil money penalty under this Act.”.

(b) PROHIBITION OF AFFILIATION WITH DEBARRED INDIVIDUALS.—

(1) MEDICAID.—Section 1903(i) of the Social Security Act (42 U.S.C. 1396b(i)) is amended—

(A) by striking the period at the end of paragraph (20) and inserting “; or”; and

(B) by inserting after paragraph (20) the following:

“(21) with respect to any amounts expended for an entity that receives payments under the plan unless—

“(A) no person with an ownership or control interest (as defined in section 1124(a)(3)) in the entity is a person that is debarred, suspended, or otherwise excluded from participating in procurement or non-procurement ac-

1 tivities under the Federal Acquisition Regula-
2 tion; and

3 “(B) such entity has not entered into an
4 employment, consulting, or other agreement for
5 the provision of items or services that are mate-
6 rial to such entity’s obligations under the plan
7 with a person described in subparagraph (A).”.

8 (2) TITLE XXI.—Section 2107(e)(1) of the So-
9 cial Security Act (42 U.S.C. 1397gg(e)(1)) is
10 amended—

11 (A) in subparagraph (B), by striking “and
12 (17)” and inserting “(17), and (21)”; and

13 (B) by adding at the end the following:

14 “(E) Section 1902(a)(67) (relating to pro-
15 hibition of affiliation with debarred individ-
16 uals).”.

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to expenditures made on or after
19 October 1, 2003, whether or not regulations implementing
20 such amendments have been issued.

21 **SEC. 217. TECHNICAL AND CONFORMING AMENDMENTS TO**
22 **AUTHORITY TO PAY MEDICAID EXPANSION**
23 **COSTS FROM TITLE XXI APPROPRIATION.**

24 (a) AUTHORITY TO PAY MEDICAID EXPANSION
25 COSTS FROM TITLE XXI APPROPRIATION.—Section

1 2105(a) of the Social Security Act (42 U.S.C. 1397ee(a))
 2 is amended to read as follows:

3 “(a) ALLOWABLE EXPENDITURES.—

4 “(1) IN GENERAL.—Subject to the succeeding
 5 provisions of this section, the Secretary shall pay to
 6 each State with a plan approved under this title,
 7 from its allotment under section 2104, an amount
 8 for each quarter equal to the enhanced FMAP of the
 9 following expenditures in the quarter:

10 “(A) CHILD HEALTH ASSISTANCE UNDER
 11 MEDICAID.—Expenditures for child health as-
 12 sistance under the plan for targeted low-income
 13 children in the form of providing medical assist-
 14 ance for expenditures described in the fourth
 15 sentence of section 1905(b).

16 “(B) RESERVED.—[reserved].

17 “(C) CHILD HEALTH ASSISTANCE UNDER
 18 THIS TITLE.—Expenditures for child health as-
 19 sistance under the plan for targeted low-income
 20 children in the form of providing health benefits
 21 coverage that meets the requirements of section
 22 2103.

23 “(D) ASSISTANCE AND ADMINISTRATIVE
 24 EXPENDITURES SUBJECT TO LIMIT.—Expendi-

1 tures only to the extent permitted consistent
2 with subsection (c)—

3 “(i) for other child health assistance
4 for targeted low-income children;

5 “(ii) for expenditures for health serv-
6 ices initiatives under the plan for improv-
7 ing the health of children (including tar-
8 geted low-income children and other low-
9 income children);

10 “(iii) for expenditures for outreach ac-
11 tivities as provided in section 2102(c)(1)
12 under the plan; and

13 “(iv) for other reasonable costs in-
14 curred by the State to administer the plan.

15 “(2) ORDER OF PAYMENTS.—Payments under a
16 subparagraph of paragraph (1) from a State’s allot-
17 ment for expenditures described in each such sub-
18 paragraph shall be made on a quarterly basis in the
19 order of such subparagraph in such paragraph.

20 “(3) NO DUPLICATIVE PAYMENT.—In the case
21 of expenditures for which payment is made under
22 paragraph (1), no payment shall be made under title
23 XIX.”.

24 (b) CONFORMING AMENDMENTS.—

1 (1) SECTION 1905(u).—Section 1905(u)(1)(B)
 2 of the Social Security Act (42 U.S.C.
 3 1396d(u)(1)(B)) is amended by inserting “and sec-
 4 tion 2105(a)(1)” after “subsection (b)”.

5 (2) SECTION 2105(c).—Section 2105(c)(2)(A) of
 6 the Social Security Act (42 U.S.C. 1397ee(c)(2)(A))
 7 is amended by striking “subparagraphs (A), (C),
 8 and (D) of”.

9 (c) EFFECTIVE DATE.—The amendments made by
 10 this section shall be effective as if included in the enact-
 11 ment of the Balanced Budget Act of 1997 (Public Law
 12 105–33; 111 Stat. 251), whether or not regulations imple-
 13 menting such amendments have been issued.

14 **Subtitle C—Simplified Enrollment**

15 **SEC. 221. AUTOMATIC ENROLLMENT OF CHILDREN BORN** 16 **TO TITLE XXI PARENTS.**

17 Section 2102(b)(1) of the Social Security Act (42
 18 U.S.C. 1397bb(b)(1)) is amended by adding at the end
 19 the following:

20 “(C) AUTOMATIC ELIGIBILITY OF CHIL-
 21 DREN BORN TO A PARENT BEING PROVIDED
 22 FAMILYCARE.—Such eligibility standards shall
 23 provide for automatic coverage of a child born
 24 to an individual who is provided assistance
 25 under this title in the same manner as medical

1 assistance would be provided under section
 2 1902(e)(4) to a child described in such sec-
 3 tion.”.

4 **SEC. 222. APPLICATION OF SIMPLIFIED TITLE XXI PROCE-**
 5 **DURES UNDER THE MEDICAID PROGRAM.**

6 (a) APPLICATION UNDER MEDICAID.—

7 (1) IN GENERAL.—Section 1902(l) of the Social
 8 Security Act (42 U.S.C. 1396a(l)) is amended—

9 (A) in paragraph (3), by inserting “subject
 10 to paragraph (5)”, after “Notwithstanding sub-
 11 section (a)(17),”; and

12 (B) by adding at the end the following:

13 “(5) With respect to determining the eligibility of in-
 14 dividuals under 19 years of age (or such higher age as
 15 the State has elected under paragraph (1)(D)) for medical
 16 assistance under subsection (a)(10)(A) and, separately,
 17 with respect to determining the eligibility of individuals
 18 for medical assistance under subsection
 19 (a)(10)(A)(i)(VIII) or (a)(10)(A)(ii)(XIX), notwith-
 20 standing any other provision of this title, if the State has
 21 established a State child health plan under title XXI—

22 “(A) the State may not apply a resource stand-
 23 ard;

24 “(B) the State shall use the same simplified eli-
 25 gibility form (including, if applicable, permitting ap-

1 plication other than in person) as the State uses
 2 under such State child health plan with respect to
 3 such individuals;

4 “(C) the State shall provide for initial eligibility
 5 determinations and redeterminations of eligibility
 6 using verification policies, forms, and frequency that
 7 are no less restrictive than the policies, forms, and
 8 frequency the State uses for such purposes under
 9 such State child health plan with respect to such in-
 10 dividuals; and

11 “(D) the State shall not require a face-to-face
 12 interview for purposes of initial eligibility determina-
 13 tions and redeterminations unless the State requires
 14 such an interview for such purposes under such child
 15 health plan with respect to such individuals.”.

16 (2) EFFECTIVE DATE.—The amendments made
 17 by paragraph (1) apply to determinations of eligi-
 18 bility made on or after the date that is 1 year after
 19 the date of enactment of this Act, whether or not
 20 regulations implementing such amendments have
 21 been issued.

22 (b) PRESUMPTIVE ELIGIBILITY.—

23 (1) IN GENERAL.—Section 1920A(b)(3)(A)(i) of
 24 the Social Security Act (42 U.S.C. 1396r-
 25 1a(b)(3)(A)(i)) is amended by inserting “a child care

1 resource and referral agency,” after “a State or trib-
 2 al child support enforcement agency,”.

3 (2) APPLICATION TO PRESUMPTIVE ELIGIBILITY
 4 FOR PREGNANT WOMEN UNDER MEDICAID.—Section
 5 1920(b) of the Social Security Act (42 U.S.C.
 6 1396r–1(b)) is amended by adding at the end after
 7 and below paragraph (2) the following flush sen-
 8 tence:

9 “The term ‘qualified provider’ includes a qualified entity
 10 as defined in section 1920A(b)(3).”.

11 (3) APPLICATION UNDER TITLE XXI.—

12 (A) IN GENERAL.—Section 2107(e)(1)(D)
 13 of the Social Security Act (42 U.S.C.
 14 1397gg(e)(1)) is amended to read as follows:

15 “(D) Sections 1920 and 1920A (relating to
 16 presumptive eligibility).”.

17 (B) CONFORMING ELIMINATION OF RE-
 18 SOURCE TEST.—Section 2102(b)(1)(A) of such
 19 Act (42 U.S.C. 1397bb(b)(1)(A)) is amended—

20 (i) by striking “ and resources (in-
 21 cluding any standards relating to
 22 spenddowns and disposition of resources)”;
 23 and

24 (ii) by adding at the end the fol-
 25 lowing: “Effective 1 year after the date of

1 enactment of the Access to Affordable
 2 Health Care Act, such standards may not
 3 include the application of a resource stand-
 4 ard or test.”.

5 (c) AUTOMATIC REASSESSMENT OF ELIGIBILITY FOR
 6 TITLE XXI AND MEDICAID BENEFITS FOR CHILDREN
 7 LOSING MEDICAID OR TITLE XXI ELIGIBILITY.—

8 (1) LOSS OF MEDICAID ELIGIBILITY.—Section
 9 1902(a) of the Social Security Act (42 U.S.C.
 10 1396a(a)) is amended—

11 (A) by striking the period at the end of
 12 paragraph (65) and inserting “; and”, and

13 (B) by inserting after paragraph (65) the
 14 following:

15 “(66) provide, in the case of a State with a
 16 State child health plan under title XXI, that before
 17 medical assistance to a child (or a parent of a child)
 18 is discontinued under this title, a determination of
 19 whether the child (or parent) is eligible for benefits
 20 under title XXI shall be made and, if determined to
 21 be so eligible, the child (or parent) shall be auto-
 22 matically enrolled in the program under such title
 23 without the need for a new application.”.

1 (2) LOSS OF TITLE XXI ELIGIBILITY AND CO-
2 ORDINATION WITH MEDICAID.—Section 2102(b) (42
3 U.S.C. 1397bb(b)) is amended—

4 (A) in paragraph (3), by redesignating
5 subparagraphs (D) and (E) as subparagraphs
6 (E) and (F), respectively, and by inserting after
7 subparagraph (C) the following:

8 “(D) that before health assistance to a
9 child (or a parent of a child) is discontinued
10 under this title, a determination of whether the
11 child (or parent) is eligible for benefits under
12 title XIX is made and, if determined to be so
13 eligible, the child (or parent) is automatically
14 enrolled in the program under such title with-
15 out the need for a new application;”;

16 (B) by redesignating paragraph (4) as
17 paragraph (5); and

18 (C) by inserting after paragraph (3) the
19 following new paragraph:

20 “(4) COORDINATION WITH MEDICAID.—The
21 State shall coordinate the screening and enrollment
22 of individuals under this title and under title XIX
23 consistent with the following:

24 “(A) Information that is collected under
25 this title or under title XIX which is needed to

1 make an eligibility determination under the
2 other title shall be transmitted to the appro-
3 priate administering entity under such other
4 title in a timely manner so that coverage is not
5 delayed and families do not have to submit the
6 same information twice. Families shall be pro-
7 vided the information they need to complete the
8 application process for coverage under both ti-
9 tles and be given appropriate notice of any de-
10 terminations made on their applications for
11 such coverage.

12 “(B) If a State does not use a joint appli-
13 cation under this title and such title, the State
14 shall—

15 “(i) promptly inform a child’s parent
16 or caretaker in writing and, if appropriate,
17 orally, that a child has been found likely to
18 be eligible under title XIX;

19 “(ii) provide the family with an appli-
20 cation for medical assistance under such
21 title and offer information about what (if
22 any) further information, documentation,
23 or other steps are needed to complete such
24 application process;

1 “(iii) offer assistance in completing
2 such application process; and

3 “(iv) promptly transmit the separate
4 application under this title or the informa-
5 tion obtained through such application,
6 and all other relevant information and doc-
7 umentation, including the results of the
8 screening process, to the State agency
9 under title XIX for a final determination
10 on eligibility under such title.

11 “(C) Applicants are notified in writing
12 of—

13 “(i) benefits (including restrictions on
14 cost-sharing) under title XIX; and

15 “(ii) eligibility rules that prohibit chil-
16 dren who have been screened eligible for
17 medical assistance under such title from
18 being enrolled under this title, other than
19 provisional temporary enrollment while a
20 final eligibility determination is being made
21 under such title.

22 “(D) If the agency administering this title
23 is different from the agency administering a
24 State plan under title XIX, such agencies shall

1 coordinate the screening and enrollment of ap-
 2 plicants for such coverage under both titles.

3 “(E) The coordination procedures estab-
 4 lished between the program under this title and
 5 under title XIX shall apply not only to the ini-
 6 tial eligibility determination of a family but also
 7 to any renewals or redeterminations of such eli-
 8 gibility.”.

9 (3) EFFECTIVE DATE.—The amendments made
 10 by paragraphs (1) and (2) apply to individuals who
 11 lose eligibility under the medicaid program under
 12 title XIX, or under a State child health insurance
 13 plan under title XXI, respectively, of the Social Se-
 14 curity Act on or after October 1, 2003 (or, if later,
 15 60 days after the date of enactment of this Act),
 16 whether or not regulations implementing such
 17 amendments have been issued.

18 (d) PROVISION OF MEDICAID AND CHIP APPLICA-
 19 TIONS AND INFORMATION UNDER THE SCHOOL LUNCH
 20 PROGRAM.—Section 9(b)(2)(B) of the Richard B. Russell
 21 National School Lunch Act (42 U.S.C. 1758(b)(2)(B)) is
 22 amended—

23 (1) by striking “(B) Applications” and inserting
 24 “(B)(i) Applications”; and

25 (2) by adding at the end the following:

1 “(ii)(I) Applications for free and reduced price
 2 lunches that are distributed pursuant to clause (i) to par-
 3 ents or guardians of children in attendance at schools par-
 4 ticipating in the school lunch program under this Act shall
 5 also contain information on the availability of medical as-
 6 sistance under title XIX of the Social Security Act (42
 7 U.S.C. 1396 et seq.) and of child health and FamilyCare
 8 assistance under title XXI of such Act, including informa-
 9 tion on how to obtain an application for assistance under
 10 such programs.

11 “(II) Information on the programs referred to in sub-
 12 clause (I) shall be provided on a form separate from the
 13 application form for free and reduced price lunches under
 14 clause (i).”.

15 (e) 12-MONTHS CONTINUOUS ELIGIBILITY.—

16 (1) MEDICAID.—Section 1902(e)(12) of the So-
 17 cial Security Act (42 U.S.C. 1396a(e)(12)) is
 18 amended—

19 (A) by striking “At the option of the State,
 20 the plan may” and inserting “The plan shall”;

21 (B) by striking “an age specified by the
 22 State (not to exceed 19 years of age)” and in-
 23 serting “19 years of age (or such higher age as
 24 the State has elected under subsection
 25 (l)(1)(D)) or, at the option of the State, who is

1 eligible for medical assistance as the parent of
 2 such a child”; and

3 (C) in subparagraph (A), by striking “a
 4 period (not to exceed 12 months)” and insert-
 5 ing “the 12-month period beginning on the
 6 date”.

7 (2) TITLE XXI.—Section 2102(b)(2) of such
 8 Act (42 U.S.C. 1397bb(b)(2)) is amended by adding
 9 at the end the following: “Such methods shall pro-
 10 vide 12-months continuous eligibility for children
 11 under this title in the same manner that section
 12 1902(e)(12) provides 12-months continuous eligi-
 13 bility for children described in such section under
 14 title XIX. If a State has elected to apply section
 15 1902(e)(12) to parents, such methods may provide
 16 12-months continuous eligibility for parents under
 17 this title in the same manner that such section pro-
 18 vides 12-months continuous eligibility for parents
 19 described in such section under title XIX.”.

20 (3) EFFECTIVE DATE.—

21 (A) IN GENERAL.—The amendments made
 22 by this subsection take effect on October 1,
 23 2003 (or, if later, 60 days after the date of en-
 24 actment of this Act), whether or not regulations

1 implementing such amendments have been
2 issued.

3 **SEC. 223. ELIMINATION OF 100 HOUR RULE AND OTHER**
4 **AFDC-RELATED ELIGIBILITY RESTRICTIONS.**

5 (a) IN GENERAL.—Section 1931(b)(1)(A)(ii) of the
6 Social Security Act (42 U.S.C. 1396u–1(b)(1)(A)(ii)) is
7 amended by inserting “other than the requirement that
8 the child be deprived of parental support or care by reason
9 of the death, continued absence from the home, incapacity,
10 or unemployment of a parent,” after “section 407(a),”.

11 (b) CONFORMING AMENDMENT.—Section 1905(a) of
12 the Social Security Act (42 U.S.C. 1396d(a)) is amended,
13 in the matter before paragraph (1), in clause (ii), by strik-
14 ing “if such child is (or would, if needy, be) a dependent
15 child under part A of title IV”.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section apply to eligibility determinations made on or
18 after October 1, 2003, whether or not regulations imple-
19 menting such amendments have been issued.

1 **Subtitle D—State Option to Pro-**
 2 **vide Coverage of Legal Immi-**
 3 **grants Under Medicaid and**
 4 **SCHIP**

5 **SEC. 231. OPTIONAL COVERAGE OF LEGAL IMMIGRANTS**
 6 **UNDER THE MEDICAID PROGRAM AND TITLE**
 7 **XXI.**

8 (a) MEDICAID PROGRAM.—Section 1903(v) of the
 9 Social Security Act (42 U.S.C. 1396b(v)) is amended—

10 (1) in paragraph (1), by striking “paragraph
 11 (2)” and inserting “paragraphs (2) and (4)”; and

12 (2) by adding at the end the following:

13 “(4)(A) A State may elect (in a plan amendment
 14 under this title) to provide medical assistance under this
 15 title, notwithstanding sections 401(a), 402(b), 403, and
 16 421 of the Personal Responsibility and Work Opportunity
 17 Reconciliation Act of 1996, for aliens who are lawfully re-
 18 siding in the United States (including battered aliens de-
 19 scribed in section 431(c) of such Act) and who are other-
 20 wise eligible for such assistance, within any of the fol-
 21 lowing eligibility categories:

22 “(i) PREGNANT WOMEN.—Women during preg-
 23 nancy (and during the 60-day period beginning on
 24 the last day of the pregnancy).

1 “(ii) CHILDREN.—Children (as defined under
2 such plan), including optional targeted low-income
3 children described in section 1905(u)(2)(B).

4 “(iii) PARENTS.—If the State has elected the
5 eligibility category described in clause (ii), caretaker
6 relatives who are parents (including individuals
7 treated as a caregiver for purposes of carrying out
8 section 1931) of children (described in such clause
9 or otherwise) who are eligible for medical assistance
10 under the plan.

11 “(B) In the case of a State that has elected to provide
12 medical assistance to a category of aliens under subpara-
13 graph (A), no debt shall accrue under an affidavit of sup-
14 port against any sponsor of such an alien on the basis
15 of provision of assistance to such category and the cost
16 of such assistance shall not be considered as an unreim-
17 bursed cost.”.

18 (b) TITLE XXI.—Section 2107(e)(1) of the Social
19 Security Act (42 U.S.C. 1397gg(e)(1)), as amended by
20 section 216(b)(2), is amended by adding at the end the
21 following:

22 “(F) Section 1903(v)(4) (relating to op-
23 tional coverage of categories of lawful resident
24 alien children and parents), but only with re-
25 spect to an eligibility category under this title,

1 if the same eligibility category has been elected
 2 under such section for purposes of title XIX.”.

3 (c) EFFECTIVE DATE.—The amendments made by
 4 this section take effect on October 1, 2003, and apply to
 5 medical assistance and child health assistance furnished
 6 on or after such date, whether or not regulations imple-
 7 menting such amendments have been issued.

8 **Subtitle E—State Option to Extend**
 9 **Medicaid Coverage to Certain**
 10 **Low-Income Individuals**

11 **SEC. 241. STATE OPTION TO EXTEND MEDICAID COVERAGE**
 12 **TO CERTAIN LOW-INCOME INDIVIDUALS.**

13 (a) STATE OPTION.—Section 1902(a)(10)(A)(ii) of
 14 the Social Security Act (42 U.S.C. 1396a(a)(10)(A)(ii)),
 15 as amended by section 212(a)(1)(A), is amended—

16 (1) by striking “or” at the end of subclause
 17 (XVIII);

18 (2) by adding “or” at the end of subclause
 19 (XIX); and

20 (3) by adding at the end the following:

21 “(XX) who are individuals who
 22 are not otherwise eligible for medical
 23 assistance under this subparagraph,
 24 or under a waiver approved under sec-
 25 tion 1115, or otherwise, as of the date

1 of enactment of this subclause and
 2 whose family income does not exceed
 3 125 percent of the income official pov-
 4 erty line (as defined by the Office of
 5 Management and Budget and revised
 6 annually in accordance with section
 7 673(2) of the Omnibus Budget Rec-
 8 onciliation Act of 1981) applicable to
 9 a family of the size involved;”.

10 (b) CONFORMING AMENDMENTS.—

11 (1) MEDICAL ASSISTANCE ELIGIBILITY CAT-
 12 EGORIES.—Section 1905(a) of such Act (42 U.S.C.
 13 1396d(a)), as amended by section 212(e)(1), is
 14 amended in the matter preceding paragraph (1)—

15 (i) by striking “or” at the end of
 16 clause (xiii);

17 (ii) by adding “or” at the end of
 18 clause (xiv); and

19 (iii) by inserting after clause (xiv) the
 20 following:

21 “(xv) who are individuals described in section
 22 1902(a)(10)(A)(ii)(XX),”.

23 (2) EXEMPTION FROM UPPER INCOME LIMITA-
 24 TION.—Section 1903(f)(4) of such Act (42 U.S.C.
 25 1396b(f)(4)), as amended by section 212(e)(2)(B), is

1 amended by inserting “1902(a)(10)(A)(ii)(XX),”
 2 after “1902(a)(10)(A)(ii)(XIX),”.

3 (c) EFFECTIVE DATES.—The amendments made by
 4 this subsection take effect on October 1, 2003.

5 **Subtitle F—Improving Welfare-to-**
 6 **Work Transition Under Medicaid**

7 **SEC. 251. IMPROVING WELFARE-TO-WORK TRANSITION**
 8 **UNDER MEDICAID.**

9 (a) MAKING PROVISION PERMANENT.—

10 (1) IN GENERAL.—Subsection (f) of section
 11 1925 of the Social Security Act (42 U.S.C. 1396r–
 12 6) is repealed.

13 (2) CONFORMING AMENDMENT.—Section
 14 1902(e)(1) of the Social Security Act (42 U.S.C.
 15 1396a(e)(1)) is repealed.

16 (b) STATE OPTION OF INITIAL 12-MONTH ELIGI-
 17 BILITY.—Section 1925 of the Social Security Act (42
 18 U.S.C. 1396r–6) is amended—

19 (1) in subsection (a), by adding at the end the
 20 following:

21 “(5) OPTION OF 12-MONTH INITIAL ELIGIBILITY
 22 PERIOD.—A State may elect to treat any reference
 23 in this subsection to a 6-month period (or 6 months)
 24 as a reference to a 12-month period (or 12 months).

1 In the case of such an election, subsection (b) shall
 2 not apply.”; and

3 (2) in subsection (b)(1), by inserting “and sub-
 4 section (a)(5)” after “paragraph (3)”.

5 (c) SIMPLIFICATION.—

6 (1) REMOVAL OF ADMINISTRATIVE REPORTING
 7 REQUIREMENTS FOR ADDITIONAL 6-MONTH EXTEN-
 8 SION.—Section 1925(b)(2) of the Social Security Act
 9 (42 U.S.C. 1396r–6(b)(2)) is amended—

10 (A) by striking subparagraph (B);

11 (B) in subparagraph (A)(i)—

12 (i) in the heading, by striking “AND
 13 REQUIREMENTS”;

14 (ii) by striking “(I)” and all that fol-
 15 lows through “(II)” and inserting “(i)”;

16 (iii) by striking “, and (III)” and in-
 17 serting “and (ii)”;

18 (iv) by redesignating such subpara-
 19 graph as subparagraph (A) (with appro-
 20 priate indentation); and

21 (C) in subparagraph (A)(ii)—

22 (i) in the heading, by striking “RE-
 23 PORTING REQUIREMENTS AND”;

24 (ii) by striking “notify the family of
 25 the reporting requirement under subpara-

graph (B)(ii) and” and inserting “provide the family with notification of”; and

(iii) by redesignating such subparagraph as subparagraph (B) (with appropriate indentation).

(2) REMOVAL OF REQUIREMENT FOR PREVIOUS RECEIPT OF MEDICAL ASSISTANCE.—Section 1925(a)(1) of the Social Security Act (42 U.S.C. 1396r–6(a)(1)) is amended—

(A) by inserting “but subject to subparagraph (B)” after “any other provision of this title”;

(B) by redesignating the matter after “REQUIREMENT.—” as a subparagraph (A) with the heading “IN GENERAL.—” and with the same indentation as subparagraph (B) (as added by subparagraph (C)); and

(C) by adding at the end the following:

“(B) STATE OPTION TO WAIVE REQUIREMENT FOR 3 MONTHS PREVIOUS RECEIPT OF MEDICAL ASSISTANCE.—A State may, at its option, elect also to apply subparagraph (A) in the case of a family that had applied for and was eligible for such aid for fewer than 3

1 months during the 6 immediately preceding
 2 months described in such subparagraph.”.

3 (3) PERMITTING INCREASE OR WAIVER OF 185
 4 PERCENT OF POVERTY EARNING LIMIT.—Section
 5 1925(b)(3)(A)(iii)(III) of the Social Security Act (42
 6 U.S.C. 1396r–6(b)(3)(A)(iii)(III)) is amended—

7 (A) by inserting “(at its option)” after
 8 “the State”; and

9 (B) by inserting “(or such higher percent
 10 as the State may specify)” after “185 percent”.

11 (4) EXEMPTION FOR STATES COVERING NEEDY
 12 FAMILIES UP TO 185 PERCENT OF POVERTY.—Sec-
 13 tion 1925 of the Social Security Act (42 U.S.C.
 14 1396r–6), as amended by subsection (a), is amend-
 15 ed—

16 (A) in each of subsections (a)(1) and
 17 (b)(1), by inserting “but subject to subsection
 18 (f),” after “Notwithstanding any other provi-
 19 sion of this title,”; and

20 (B) by adding at the end the following:

21 “(f) EXEMPTION FOR STATE COVERING NEEDY
 22 FAMILIES UP TO 185 PERCENT OF POVERTY.—

23 “(1) IN GENERAL.—At State option, the provi-
 24 sions of this section shall not apply to a State that
 25 uses the authority under section

1 1902(a)(10)(A)(ii)(XIX), section 1931(b)(2)(C), or
 2 otherwise to make medical assistance available under
 3 the State plan under this title to eligible individuals
 4 described in section 1902(k)(1), or all individuals de-
 5 scribed in section 1931(b)(1), and who are in fami-
 6 lies with gross incomes (determined without regard
 7 to work-related child care expenses of such individ-
 8 uals) at or below 185 percent of the income official
 9 poverty line (as defined by the Office of Manage-
 10 ment and Budget, and revised annually in accord-
 11 ance with section 673(2) of the Omnibus Budget
 12 Reconciliation Act of 1981) applicable to a family
 13 of the size involved.

14 “(2) APPLICATION TO OTHER PROVISIONS OF
 15 THIS TITLE.—The State plan of a State described in
 16 paragraph (1) shall be deemed to meet the require-
 17 ments of section 1902(a)(10)(A)(i)(I).”.

18 (d) EFFECTIVE DATE.—The amendments made by
 19 this section take effect on October 1, 2003, whether or
 20 not regulations implementing such amendments have been
 21 issued.

1 **Subtitle G—Demonstration Pro-**
 2 **grams to Improve Medicaid and**
 3 **SCHIP Outreach to Homeless**
 4 **Individuals and Families**

5 **SEC. 261. DEMONSTRATION PROGRAMS TO IMPROVE MED-**
 6 **ICAID AND SCHIP OUTREACH TO HOMELESS**
 7 **INDIVIDUALS AND FAMILIES.**

8 (a) **AUTHORITY.**—The Secretary of Health and
 9 Human Services may award demonstration grants to not
 10 more than 7 States (or other qualified entities) to conduct
 11 innovative programs that are designed to improve out-
 12 reach to homeless individuals and families under the pro-
 13 grams described in subsection (b) with respect to enroll-
 14 ment of such individuals and families under such pro-
 15 grams and the provision of services (and coordinating the
 16 provision of such services) under such programs.

17 (b) **PROGRAMS FOR HOMELESS DESCRIBED.**—The
 18 programs described in this subsection are as follows:

19 (1) **MEDICAID.**—The program under title XIX
 20 of the Social Security Act (42 U.S.C. 1396 et seq.).

21 (2) **CHIP.**—The program under title XXI of
 22 the Social Security Act (42 U.S.C. 1397aa et seq.).

23 (3) **TANF.**—The program under part of A of
 24 title IV of the Social Security Act (42 U.S.C. 601
 25 et seq.).

1 (4) SAMHSA BLOCK GRANTS.—The program
2 of grants under part B of title XIX of the Public
3 Health Service Act (42 U.S.C. 300x-1 et seq.).

4 (5) FOOD STAMP PROGRAM.—The program
5 under the Food Stamp Act of 1977 (7 U.S.C. 2011
6 et seq.).

7 (6) WORKFORCE INVESTMENT ACT.—The pro-
8 gram under the Workforce Investment Act of 1999
9 (29 U.S.C. 2801 et seq.).

10 (7) WELFARE-TO-WORK.—The welfare-to-work
11 program under section 403(a)(5) of the Social Secu-
12 rity Act (42 U.S.C. 603(a)(5)).

13 (8) OTHER PROGRAMS.—Other public and pri-
14 vate benefit programs that serve low-income individ-
15 uals.

16 (c) APPROPRIATIONS.—For the purposes of carrying
17 out this section, there is appropriated for fiscal year 2004,
18 out of any funds in the Treasury not otherwise appro-
19 priated, \$10,000,000, to remain available until expended.

20 **Subtitle H—High Risk Pools**

21 **SEC. 271. PROMOTION OF STATE HIGH RISK POOLS.**

22 Title XXVII of the Public Health Service Act is
23 amended by inserting after section 2745 (42 U.S.C.
24 300gg-45) the following:

1 **“SEC. 2746. PROMOTION OF QUALIFIED HIGH RISK POOLS.**

2 “(a) SEED GRANTS TO STATES.—From amounts ap-
3 propriate under subsection (c)(1), the Secretary shall
4 award a grant of up to \$1,000,000 to each State that has
5 not created a qualified high risk pool as of the date of
6 the enactment of this section for the State’s costs of the
7 creation and initial operation of such a pool.

8 “(b) MATCHING FUNDS FOR OPERATION OF
9 POOLS.—

10 “(1) IN GENERAL.—In the case of a State that
11 has established a qualified high risk pool that re-
12 stricts premiums charged under the pool to no more
13 than 150 percent of the premium for applicable
14 standard risk rates and that offers a choice of two
15 or more coverage options through the pool, from the
16 amounts appropriated under subsection (c)(2) and
17 allotted to the State under paragraph (2), the Sec-
18 retary shall provide a grant to such State in an
19 amount that does not exceed 50 percent of the losses
20 incurred by the State in connection with the oper-
21 ation of the pool.

22 “(2) ALLOTMENT.—The amount appropriated
23 under subsection (c)(2) for a fiscal year shall be
24 made available to the States in accordance with a
25 formula that is developed by the Secretary based

1 upon the number of uninsured individuals in the
2 States.

3 “(3) CONSTRUCTION.—Nothing in this sub-
4 section shall be construed as preventing a State
5 from supplementing the funds made available under
6 this subsection for the support and operation of a
7 qualified high risk pool.

8 “(c) AUTHORIZATION OF APPROPRIATIONS.—There
9 is authorized to be appropriated to carry out this section—

10 “(1) \$20,000,000 for fiscal year 2004 to carry
11 out subsection (a); and

12 “(2) \$40,000,000 for each of fiscal years 2004
13 and 2005.

14 Amounts appropriated under this subsection for a fiscal
15 year shall remain available for obligation through the end
16 of the following fiscal year.

17 “(d) LIMITATION.—Nothing in this section shall be
18 construed as providing a State with an entitlement to a
19 grant under this section.

20 “(e) DEFINITIONS.—In this section:

21 “(1) QUALIFIED HIGH RISK POOL.—The term
22 ‘qualified high risk pool’ has the meaning given such
23 term in section 2744(c)(2);

24 “(2) STATE.—The term ‘State’ means any of
25 the 50 States and the District of Columbia.”.

1 **TITLE III—STRENGTHENING THE**
 2 **HEALTH CARE SAFETY NET**

3 **SEC. 301. INCREASE IN FUNDING FOR THE CONSOLIDATED**
 4 **HEALTH CENTERS PROGRAM.**

5 It is the sense of the Senate that the amounts appro-
 6 priated for consolidated health centers under section 330
 7 of the Public Health Service Act (42 U.S.C. 254b) should
 8 be doubled over the 5-fiscal year period beginning with fis-
 9 cal year 2004.

10 **TITLE IV—EXPANSION OF AC-**
 11 **CESS TO HEALTH CARE IN**
 12 **RURAL AND UNDERSERVED**
 13 **AREAS**

14 **Subtitle A—National Health**
 15 **Service Corps**

16 **SEC. 401. EXPANSION OF FUNDING.**

17 It is the sense of the Senate that the amounts appro-
 18 priated for National Health Service Corps under subpart
 19 II of part D of title III of the Public Health Service Act
 20 (42 U.S.C. 254d et seq.) should be doubled over the 5-
 21 fiscal year period beginning with fiscal year 2004 to assist
 22 in provide support for physicians, dentists, and other
 23 health care clinicians who serve in rural and inner city
 24 areas.

1 **SEC. 402. LOAN REPAYMENT AND SCHOLARSHIP PRO-**
 2 **GRAMS.**

3 Section 338C of the Public Health Service Act (42
 4 U.S.C. 254m) is amended by adding at the end the fol-
 5 lowing:

6 “(e) Notwithstanding any other provision of this title,
 7 periods of obligated service may be served and fulfilled on
 8 a part time basis if—

9 “(1) such part time service is agreed to by both
 10 the placement site or sites and the recipient of the
 11 scholarship or loan repayment; and

12 “(2) the recipient’s total obligation is fulfilled.”.

13 **Subtitle B—Tax Exclusion for Na-**
 14 **tional Health Service Corps**
 15 **Loan Repayment Recipients**

16 **SEC. 411. EXCLUSION FOR LOAN PAYMENTS UNDER NA-**
 17 **TIONAL HEALTH SERVICE CORPS LOAN RE-**
 18 **PAYMENT PROGRAM.**

19 (a) IN GENERAL.—Section 117 of the Internal Rev-
 20 enue Code of 1986 is amended by adding at the end the
 21 following new subsection:

22 “(e) LOAN PAYMENTS UNDER NATIONAL HEALTH
 23 SERVICE CORPS LOAN REPAYMENT PROGRAM.—Gross in-
 24 come shall not include any amount received under section
 25 338B(g) of the Public Health Service Act.”.

1 (b) EFFECTIVE DATE.—The amendment made by
 2 subsection (a) shall apply to amounts received by an indi-
 3 vidual in taxable years beginning after December 31,
 4 2002.

5 **TITLE V—EXPANDED ACCESS TO**
 6 **AFFORDABLE LONG-TERM CARE**

7 **SEC. 501. TREATMENT OF PREMIUMS ON QUALIFIED LONG-**
 8 **TERM CARE INSURANCE CONTRACTS.**

9 (a) IN GENERAL.—Part VII of subchapter B of chap-
 10 ter 1 of the Internal Revenue Code of 1986 (relating to
 11 additional itemized deductions) is amended by redesign-
 12 ating section 223 as section 224 and by inserting after
 13 section 221 the following new section:

14 **“SEC. 223. PREMIUMS ON QUALIFIED LONG-TERM CARE IN-**
 15 **SURANCE CONTRACTS.**

16 “(a) IN GENERAL.—In the case of an individual,
 17 there shall be allowed as a deduction an amount equal to
 18 the applicable percentage of the amount of eligible long-
 19 term care premiums (as defined in section 213(d)(10))
 20 paid during the taxable year for coverage for the taxpayer,
 21 his spouse, and dependents under a qualified long-term
 22 care insurance contract (as defined in section 7702B(b)).

23 “(b) APPLICABLE PERCENTAGE.—For purposes of
 24 subsection (a)—

1 “(1) IN GENERAL.—Except as otherwise pro-
 2 vided in this subsection, the applicable percentage
 3 shall be determined in accordance with the following
 4 table based on the number of years of continuous
 5 coverage (as of the close of the taxable year) of the
 6 individual under any qualified long-term care insur-
 7 ance contracts (as defined in section 7702B(b)):

“If the number of years of continuous coverage is—	The applicable long-term care percentage is—
Less than 1	60
At least 1 but less than 2	70
At least 2 but less than 3	80
At least 3 but less than 4	90
At least 4	100.

8 “(2) SPECIAL RULES FOR INDIVIDUALS WHO
 9 HAVE ATTAINED AGE 55.—In the case of an indi-
 10 vidual who has attained age 55 as of the close of the
 11 taxable year, the following table shall be substituted
 12 for the table in paragraph (1).

“If the number of years of continuous coverage is—	The applicable long-term care percentage is—
Less than 1	70
At least 1 but less than 2	85
At least 2	100.

13 “(3) ONLY COVERAGE AFTER 2002 TAKEN INTO
 14 ACCOUNT.—Only coverage for periods after Decem-
 15 ber 31, 2002, shall be taken into account under this
 16 subsection.

17 “(4) CONTINUOUS COVERAGE.—An individual
 18 shall not fail to be treated as having continuous cov-

1 erage if the aggregate breaks in coverage during any
 2 1-year period are less than 60 days.

3 “(c) COORDINATION WITH OTHER DEDUCTIONS.—
 4 Any amount paid by a taxpayer for any qualified long-
 5 term care insurance contract to which subsection (a) ap-
 6 plies shall not be taken into account in computing the
 7 amount allowable to the taxpayer as a deduction under
 8 section 162(l) or 213(a).”.

9 (b) LONG-TERM CARE INSURANCE PERMITTED TO
 10 BE OFFERED UNDER CAFETERIA PLANS AND FLEXIBLE
 11 SPENDING ARRANGEMENTS.—

12 (1) CAFETERIA PLANS.—Section 125(f) of the
 13 Internal Revenue Code of 1986 (defining qualified
 14 benefits) is amended by inserting before the period
 15 at the end “; except that such term shall include the
 16 payment of premiums for any qualified long-term
 17 care insurance contract (as defined in section
 18 7702B) to the extent the amount of such payment
 19 does not exceed the eligible long-term care premiums
 20 (as defined in section 213(d)(10)) for such con-
 21 tract”.

22 (2) FLEXIBLE SPENDING ARRANGEMENTS.—
 23 Section 106 of such Code (relating to contributions
 24 by an employer to accident and health plans) is
 25 amended by striking subsection (c).

1 (c) CONFORMING AMENDMENTS.—

2 (1) Section 62(a) of the Internal Revenue Code
3 of 1986 is amended by inserting after paragraph
4 (18) the following new item:

5 “(19) PREMIUMS ON QUALIFIED LONG-TERM
6 CARE INSURANCE CONTRACTS.—The deduction al-
7 lowed by section 223.”.

8 (2) The table of sections for part VII of sub-
9 chapter B of chapter 1 of such Code is amended by
10 striking the last item and inserting the following
11 new items:

“Sec. 223. Premiums on qualified long-term care insurance con-
tracts.

“Sec. 224. Cross reference.”.

12 (d) EFFECTIVE DATES.—

13 (1) IN GENERAL.—Except as provided in para-
14 graph (2), the amendments made by this section
15 shall apply to taxable years beginning after Decem-
16 ber 31, 2002.

17 (2) CAFETERIA PLANS AND FLEXIBLE SPEND-
18 ING ARRANGEMENTS.—The amendments made by
19 subsection (b) shall apply to taxable years beginning
20 after December 31, 2003.

21 **SEC. 502. CREDIT FOR TAXPAYERS WITH LONG-TERM CARE**
22 **NEEDS.**

23 (a) IN GENERAL.—Subpart A of part IV of sub-
24 chapter A of chapter 1 of the Internal Revenue Code of

1 1986 (relating to nonrefundable personal credits) is
 2 amended by inserting after section 25B the following new
 3 section:

4 **“SEC. 25C. CREDIT FOR TAXPAYERS WITH LONG-TERM**
 5 **CARE NEEDS.**

6 “(a) ALLOWANCE OF CREDIT.—

7 “(1) IN GENERAL.—There shall be allowed as a
 8 credit against the tax imposed by this chapter for
 9 the taxable year an amount equal to the applicable
 10 credit amount multiplied by the number of applica-
 11 ble individuals with respect to whom the taxpayer is
 12 an eligible caregiver for the taxable year.

13 “(2) APPLICABLE CREDIT AMOUNT.—For pur-
 14 poses of paragraph (1), the applicable credit amount
 15 shall be determined in accordance with the following
 16 table:

“For taxable years beginning in calendar year—	The applicable credit amount is—
2002	\$1,000
2003	1,500
2004	2,000
2005	2,500
2006 or thereafter	3,000 .

17 “(b) LIMITATION BASED ON ADJUSTED GROSS IN-
 18 COME.—

19 “(1) IN GENERAL.—The amount of the credit
 20 allowable under subsection (a) shall be reduced (but
 21 not below zero) by \$100 for each \$1,000 (or fraction
 22 thereof) by which the taxpayer’s modified adjusted

gross income exceeds the threshold amount. For purposes of the preceding sentence, the term ‘modified adjusted gross income’ means adjusted gross income increased by any amount excluded from gross income under section 911, 931, or 933.

“(2) THRESHOLD AMOUNT.—For purposes of paragraph (1), the term ‘threshold amount’ means—

“(A) \$150,000 in the case of a joint return, and

“(B) \$75,000 in any other case.

“(3) INDEXING.—In the case of any taxable year beginning in a calendar year after 2002, each dollar amount contained in paragraph (2) shall be increased by an amount equal to the product of—

“(A) such dollar amount, and

“(B) the medical care cost adjustment determined under section 213(d)(10)(B)(ii) for the calendar year in which the taxable year begins, determined by substituting ‘August 2002’ for ‘August 1996’ in subclause (II) thereof.

If any increase determined under the preceding sentence is not a multiple of \$50, such increase shall be rounded to the next lowest multiple of \$50.

“(c) DEFINITIONS.—For purposes of this section—

“(1) APPLICABLE INDIVIDUAL.—

“(A) IN GENERAL.—The term ‘applicable individual’ means, with respect to any taxable year, any individual who has been certified, before the due date for filing the return of tax for the taxable year (without extensions), by a physician (as defined in section 1861(r)(1) of the Social Security Act) as being an individual with long-term care needs described in subparagraph (B) for a period—

“(i) which is at least 180 consecutive days, and

“(ii) a portion of which occurs within the taxable year.

Such term shall not include any individual otherwise meeting the requirements of the preceding sentence unless within the 39½ month period ending on such due date (or such other period as the Secretary prescribes) a physician (as so defined) has certified that such individual meets such requirements.

“(B) INDIVIDUALS WITH LONG-TERM CARE NEEDS.—An individual is described in this subparagraph if the individual meets any of the following requirements:

1 “(i) The individual is at least 6 years
2 of age and—

3 “(I) is unable to perform (with-
4 out substantial assistance from an-
5 other individual) at least 3 activities
6 of daily living (as defined in section
7 7702B(c)(2)(B)) due to a loss of
8 functional capacity, or

9 “(II) requires substantial super-
10 vision to protect such individual from
11 threats to health and safety due to se-
12 vere cognitive impairment and is un-
13 able to perform, without reminding or
14 cuing assistance, at least 1 activity of
15 daily living (as so defined) or to the
16 extent provided in regulations pre-
17 scribed by the Secretary (in consulta-
18 tion with the Secretary of Health and
19 Human Services), is unable to engage
20 in age appropriate activities.

21 “(ii) The individual is at least 2 but
22 not 6 years of age and is unable due to a
23 loss of functional capacity to perform
24 (without substantial assistance from an-

other individual) at least 2 of the following activities: eating, transferring, or mobility.

“(iii) The individual is under 2 years of age and requires specific durable medical equipment by reason of a severe health condition or requires a skilled practitioner trained to address the individual’s condition to be available if the individual’s parents or guardians are absent.

“(2) ELIGIBLE CAREGIVER.—

“(A) IN GENERAL.—A taxpayer shall be treated as an eligible caregiver for any taxable year with respect to the following individuals:

“(i) The taxpayer.

“(ii) The taxpayer’s spouse.

“(iii) An individual with respect to whom the taxpayer is allowed a deduction under section 151 for the taxable year.

“(iv) An individual who would be described in clause (iii) for the taxable year if section 151(c)(1)(A) were applied by substituting for the exemption amount an amount equal to the sum of the exemption amount, the standard deduction under section 63(c)(2)(C), and any additional stand-

ard deduction under section 63(c)(3) which would be applicable to the individual if clause (iii) applied.

“(v) An individual who would be described in clause (iii) for the taxable year if—

“(I) the requirements of clause (iv) are met with respect to the individual, and

“(II) the requirements of subparagraph (B) are met with respect to the individual in lieu of the support test of section 152(a).

“(B) RESIDENCY TEST.—The requirements of this subparagraph are met if an individual has as his principal place of abode the home of the taxpayer and—

“(i) in the case of an individual who is an ancestor or descendant of the taxpayer or the taxpayer’s spouse, is a member of the taxpayer’s household for over half the taxable year, or

“(ii) in the case of any other individual, is a member of the taxpayer’s household for the entire taxable year.

1 “(C) SPECIAL RULES WHERE MORE THAN
2 1 ELIGIBLE CAREGIVER.—

3 “(i) IN GENERAL.—If more than 1 in-
4 dividual is an eligible caregiver with re-
5 spect to the same applicable individual for
6 taxable years ending with or within the
7 same calendar year, a taxpayer shall be
8 treated as the eligible caregiver if each
9 such individual (other than the taxpayer)
10 files a written declaration (in such form
11 and manner as the Secretary may pre-
12 scribe) that such individual will not claim
13 such applicable individual for the credit
14 under this section.

15 “(ii) NO AGREEMENT.—If each indi-
16 vidual required under clause (i) to file a
17 written declaration under clause (i) does
18 not do so, the individual with the highest
19 modified adjusted gross income (as defined
20 in section 32(c)(5)) shall be treated as the
21 eligible caregiver.

22 “(iii) MARRIED INDIVIDUALS FILING
23 SEPARATELY.—In the case of married indi-
24 viduals filing separately, the determination
25 under this subparagraph as to whether the

1 husband or wife is the eligible caregiver
 2 shall be made under the rules of clause (ii)
 3 (whether or not one of them has filed a
 4 written declaration under clause (i)).

5 “(d) IDENTIFICATION REQUIREMENT.—No credit
 6 shall be allowed under this section to a taxpayer with re-
 7 spect to any applicable individual unless the taxpayer in-
 8 cludes the name and taxpayer identification number of
 9 such individual, and the identification number of the phy-
 10 sician certifying such individual, on the return of tax for
 11 the taxable year.

12 “(e) TAXABLE YEAR MUST BE FULL TAXABLE
 13 YEAR.—Except in the case of a taxable year closed by rea-
 14 son of the death of the taxpayer, no credit shall be allow-
 15 able under this section in the case of a taxable year cov-
 16 ering a period of less than 12 months.”.

17 (b) CONFORMING AMENDMENTS.—

18 (1) Section 6213(g)(2) of the Internal Revenue
 19 Code of 1986 is amended by striking “and” at the
 20 end of subparagraph (K), by striking the period at
 21 the end of subparagraph (L) and inserting “, and”,
 22 and by inserting after subparagraph (L) the fol-
 23 lowing new subparagraph:

24 “(M) an omission of a correct TIN or phy-
 25 sician identification required under section

1 25C(d) (relating to credit for taxpayers with
2 long-term care needs) to be included on a re-
3 turn.”.

4 (2) Section 6213(g)(2) of the Internal Revenue
5 Code of 1986, as amended by section 303(g) of the
6 Economic Growth and Tax Relief Reconciliation Act
7 of 2001, is amended by striking “and” at the end
8 of subparagraph (L), by striking the period at the
9 end of subparagraph (M) and inserting “, and”, and
10 by inserting after subparagraph (M) the following
11 new subparagraph:

12 “(N) an omission of a correct TIN or phy-
13 sician identification required under section
14 25C(d) (relating to credit for taxpayers with
15 long-term care needs) to be included on a re-
16 turn.”.

17 (3) The table of sections for subpart A of part
18 IV of subchapter A of chapter 1 of such Code is
19 amended by inserting after the item relating to sec-
20 tion 25B the following new item:

 “Sec. 25C. Credit for taxpayers with long-term care needs.”.

21 (c) EFFECTIVE DATES.—

22 (1) IN GENERAL.—Except as provided in para-
23 graphs (2) and (3), the amendments made by this
24 section shall apply to taxable years beginning after
25 December 31, 2002.

1 (2) SUBSECTION (b)(1).—The amendments
 2 made by subsection (b)(1) shall apply for the period
 3 beginning after December 31, 2002, and before Jan-
 4 uary 1, 2005.

5 (3) SUBSECTION (b)(2).—The amendments
 6 made by subsection (b)(2) shall take effect on Janu-
 7 ary 1, 2005.

8 **SEC. 503. ADDITIONAL CONSUMER PROTECTIONS FOR**
 9 **LONG-TERM CARE INSURANCE.**

10 (a) ADDITIONAL PROTECTIONS APPLICABLE TO
 11 LONG-TERM CARE INSURANCE.—Subparagraphs (A) and
 12 (B) of section 7702B(g)(2) of the Internal Revenue Code
 13 of 1986 (relating to requirements of model regulation and
 14 Act) are amended to read as follows:

15 “(A) IN GENERAL.—The requirements of
 16 this paragraph are met with respect to any con-
 17 tract if such contract meets—

18 “(i) MODEL REGULATION.—The fol-
 19 lowing requirements of the model regula-
 20 tion:

21 “(I) Section 6A (relating to guar-
 22 anteed renewal or noncancellability),
 23 and the requirements of section 6B of
 24 the model Act relating to such section
 25 6A.

1 “(II) Section 6B (relating to pro-
2 hibitions on limitations and exclu-
3 sions).

4 “(III) Section 6C (relating to ex-
5 tension of benefits).

6 “(IV) Section 6D (relating to
7 continuation or conversion of cov-
8 erage).

9 “(V) Section 6E (relating to dis-
10 continuance and replacement of poli-
11 cies).

12 “(VI) Section 7 (relating to unin-
13 tentional lapse).

14 “(VII) Section 8 (relating to dis-
15 closure), other than section 8F there-
16 of.

17 “(VIII) Section 11 (relating to
18 prohibitions against post-claims un-
19 derwriting).

20 “(IX) Section 12 (relating to
21 minimum standards).

22 “(X) Section 13 (relating to re-
23 quirement to offer inflation protec-
24 tion), except that any requirement for
25 a signature on a rejection of inflation

1 protection shall permit the signature
2 to be on an application or on a separate form.
3

4 “(XI) Section 25 (relating to prohibition against preexisting conditions
5 and probationary periods in replacement policies or certificates).
6

7
8 “(XII) The provisions of section
9 26 relating to contingent nonforfeiture
10 benefits, if the policyholder declines
11 the offer of a nonforfeiture provision
12 described in paragraph (4).

13 “(ii) MODEL ACT.—The following requirements of the model Act:
14

15 “(I) Section 6C (relating to preexisting conditions).
16

17 “(II) Section 6D (relating to prior hospitalization).
18

19 “(III) The provisions of section 8
20 relating to contingent nonforfeiture
21 benefits, if the policyholder declines
22 the offer of a nonforfeiture provision
23 described in paragraph (4).

24 “(B) DEFINITIONS.—For purposes of this
25 paragraph—

1 “(i) MODEL PROVISIONS.—The terms
 2 ‘model regulation’ and ‘model Act’ mean
 3 the long-term care insurance model regula-
 4 tion, and the long-term care insurance
 5 model Act, respectively, promulgated by
 6 the National Association of Insurance
 7 Commissioners (as adopted as of Sep-
 8 tember 2000).

9 “(ii) COORDINATION.—Any provision
 10 of the model regulation or model Act listed
 11 under clause (i) or (ii) of subparagraph
 12 (A) shall be treated as including any other
 13 provision of such regulation or Act nec-
 14 essary to implement the provision.

15 “(iii) DETERMINATION.—For pur-
 16 poses of this section and section 4980C,
 17 the determination of whether any require-
 18 ment of a model regulation or the model
 19 Act has been met shall be made by the
 20 Secretary.”.

21 (b) EXCISE TAX.—Paragraph (1) of section
 22 4980C(c) of the Internal Revenue Code of 1986 (relating
 23 to requirements of model provisions) is amended to read
 24 as follows:

25 “(1) REQUIREMENTS OF MODEL PROVISIONS.—

1 “(A) MODEL REGULATION.—The following
2 requirements of the model regulation must be
3 met:

4 “(i) Section 9 (relating to required
5 disclosure of rating practices to con-
6 sumer).”

7 “(ii) Section 14 (relating to applica-
8 tion forms and replacement coverage).

9 “(iii) Section 15 (relating to reporting
10 requirements), except that the issuer shall
11 also report at least annually the number of
12 claims denied during the reporting period
13 for each class of business (expressed as a
14 percentage of claims denied), other than
15 claims denied for failure to meet the wait-
16 ing period or because of any applicable
17 preexisting condition.

18 “(iv) Section 22 (relating to filing re-
19 quirements for marketing).

20 “(v) Section 23 (relating to standards
21 for marketing), including inaccurate com-
22 pletion of medical histories, other than
23 paragraphs (1), (6), and (9) of section
24 23C, except that—

1 “(I) in addition to such require-
 2 ments, no person shall, in selling or
 3 offering to sell a qualified long-term
 4 care insurance contract, misrepresent
 5 a material fact; and

6 “(II) no such requirements shall
 7 include a requirement to inquire or
 8 identify whether a prospective appli-
 9 cant or enrollee for long-term care in-
 10 surance has accident and sickness in-
 11 surance.

12 “(vi) Section 24 (relating to suit-
 13 ability).

14 “(vii) Section 29 (relating to standard
 15 format outline of coverage).

16 “(viii) Section 30 (relating to require-
 17 ment to deliver shopper’s guide).

18 The requirements referred to in clause (vi) shall
 19 not include those portions of the personal work-
 20 sheet described in Appendix B relating to con-
 21 sumer protection requirements not imposed by
 22 section 4980C or 7702B.

23 “(B) MODEL ACT.—The following require-
 24 ments of the model Act must be met:

1 “(i) Section 6F (relating to right to
2 return), except that such section shall also
3 apply to denials of applications and any re-
4 fund shall be made within 30 days of the
5 return or denial.

6 “(ii) Section 6G (relating to outline of
7 coverage).

8 “(iii) Section 6H (relating to require-
9 ments for certificates under group plans).

10 “(iv) Section 6I (relating to policy
11 summary).

12 “(v) Section 6J (relating to monthly
13 reports on accelerated death benefits).

14 “(vi) Section 7 (relating to incontest-
15 ability period).

16 “(C) DEFINITIONS.—For purposes of this
17 paragraph, the terms ‘model regulation’ and
18 ‘model Act’ have the meanings given such terms
19 by section 7702B(g)(2)(B).”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to policies issued more than 1 year
22 after the date of the enactment of this Act.

**TITLE VI—PROMOTING
HEALTHIER LIFESTYLES**

**SEC. 601. COMMUNITY PARTNERSHIPS TO PROMOTE
HEALTHY LIFESTYLES.**

(a) GRANTS.—The Secretary of Health and Human Services (referred to in this title as the “Secretary”) shall award grants to States to enable such States to provide assistance to eligible community partnerships that will carry out activities to promote healthy lifestyles.

(b) ELIGIBILITY.—

(1) STATE.—To be eligible to receive a grant under subsection (a), a State shall prepare and submit to the Secretary an application at such time, in such manner and containing such information as the Secretary may require.

(2) COMMUNITY PARTNERSHIP.—To be eligible to receive assistance from a State under a grant under subsection (a), an entity shall—

(A) be a partnership consisting of one or more public and private organizations (such as hospitals, health centers, other health care providers, employers, local educational agencies, community organizations, and public health organizations); and

1 (B) prepare and submit to the State an
2 application at such time, in such manner and
3 containing such information as the State may
4 require, including a description of the activities
5 that the partnership will carry out with assist-
6 ance provided under this section.

7 (c) ACTIVITIES.—A State shall use amounts received
8 under a grant under this section to support activities con-
9 ducted by an eligible community partnership to promote
10 health lifestyles, including—

11 (1) activities to reduce the primary risk factors
12 for diseases, such as smoking, obesity, and sedentary
13 lifestyles;

14 (2) implementing employee health promotion
15 programs in the workplace using best practices to
16 improve health access, education, and prevention
17 promotion and disease management;

18 (3) activities to decrease hospital inpatient ad-
19 missions of individuals with chronic diseases; and

20 (4) the development of programs relating to
21 mental health and substance abuse.

22 (d) AUTHORIZATION OF APPROPRIATIONS.—There
23 are authorized to be appropriated to carry out this section,
24 such sums as may be necessary for each of fiscal years
25 2004 through 2006.

1 **SEC. 602. WORKSITE WELLNESS GRANT PROGRAM.**

2 (a) GRANTS.—The Secretary shall award grants to
3 States (through State health departments or other State
4 agencies working in consultation with the State health
5 agency) to enable such States to provide assistance to em-
6 ployers that employ not to exceed 100 employees to enable
7 such employers to establish and operate worksite wellness
8 programs for their employees.

9 (b) APPLICATION.—To be eligible to receive a grant
10 under subsection (a), a State shall prepare and submit to
11 the Secretary an application at such time, in such manner,
12 and containing such information as the Secretary may re-
13 quire, including—

14 (1) a description of the manner in which the
15 State intends to use amounts received under the
16 grant; and

17 (2) assurances that the State will only use
18 amounts provided under such grant to provide as-
19 sistance to employers that can demonstrate that they
20 are in compliance with minimum program character-
21 istics (relative to scope and regularity of services of-
22 fered) that are developed by the Secretary in con-
23 sultation with experts in public health and represent-
24 atives of small employers.

1 (c) ALLOCATION.—Grants shall be allocated among
2 States based on the population of individuals employed by
3 small employers in such States.

4 (d) PROGRAM CHARACTERISTICS.—In developing
5 minimum program characteristics under subsection (b)(2),
6 the Secretary shall ensure that all activities established or
7 enhanced under a grant under this section have clearly
8 defined goals and objectives and demonstrate how receipt
9 of such assistance will help to achieve established State
10 or local health objectives based on the National Health
11 Promotion and Disease Prevention Objectives.

12 (e) USE OF FUNDS.—Amounts received under a
13 grant awarded under subsection (a) shall be used by a
14 State to provide grants to employers (as described in sub-
15 section (a)), nonprofit organizations, or public authorities,
16 or to operate State-based worksite wellness programs.

17 (f) SPECIAL EMPHASIS.—In funding employer work-
18 site wellness projects under this section, a State shall give
19 special emphasis to—

20 (1) the development of joint wellness programs
21 between employers;

22 (2) the development of employee assistance pro-
23 grams dealing with substance abuse;

1 (3) maximizing the use of, and coordination
 2 with, existing community resources such as non-
 3 profit health organizations; and

4 (4) encouraging the participation of dependents
 5 of employees and retirees in wellness programs.

6 (g) AUTHORIZATION OF APPROPRIATIONS.—There
 7 are authorized to be appropriated to carry out this section,
 8 such sums as may be necessary for each of fiscal years
 9 2004 through 2006.

10 **SEC. 603. COMPREHENSIVE SCHOOL HEALTH EDUCATION.**

11 (a) IN GENERAL.—The Secretary shall use amounts
 12 appropriated in each fiscal year under subsection (d) to
 13 expand comprehensive school health education programs
 14 administered by the Centers for Disease Control and Pre-
 15 vention under sections 301 and 311 of the Public Health
 16 Service Act (42 U.S.C. 241 and 243).

17 (b) SPECIFIED USE OF FUNDS.—In meeting the re-
 18 quirement of subsection (a), the Secretary shall expand
 19 the number of children receiving planned, sequential kin-
 20 dergarten through 12th grade comprehensive school edu-
 21 cation as a component of comprehensive programs of
 22 school health, including—

23 (1) physical education programs that provide
 24 lifelong physical activity;

25 (2) healthy school food service selections;

1 (3) programs that promote a healthy and safe
2 school environment;

3 (4) schoolsite health promotion for faculty and
4 staff;

5 (5) integrated school and community health
6 promotion efforts; and

7 (6) school nursing disease prevention and
8 health promotion services.

9 (c) COORDINATION OF EXISTING PROGRAMS.—The
10 Secretary of Health and Human Services, the Secretary
11 of Education, and the Secretary of Agriculture shall work
12 cooperatively to coordinate existing school health edu-
13 cation programs within the jurisdiction of their respective
14 Departments in a manner that maximizes the efficiency
15 and effectiveness of Federal expenditures for such pro-
16 grams.

17 (d) AUTHORIZATION OF APPROPRIATIONS.—There
18 are authorized to be appropriated to carry out this section,
19 such sums as may be necessary for each of fiscal years
20 2004 through 2006.

21 **TITLE VII—MEDICARE FAIRNESS**
22 **Subtitle A—Medicare Value and**
23 **Quality Demonstration**

24 **SEC. 701. FINDINGS.**

25 The Senate makes the following findings:

1 (1) The United States Government should re-
2 ward physicians, hospitals, and other health care
3 providers that provide high-quality, cost-effective
4 health care to beneficiaries under the medicare pro-
5 gram.

6 (2) The Journal of the American Medical Asso-
7 ciation has published quality indicators in an article
8 entitled “Quality of Medical Care Delivered to Medi-
9 care Beneficiaries: A Profile at State and National
10 Levels”.

11 (3) The cost of health care is—

12 (A) reflected in the type and volume of
13 physicians’ services and in physician ordering
14 and prescribing behavior; and

15 (B) reflected in the amount of the average
16 payment to hospitals under the medicare pro-
17 gram for each medicare beneficiary in each
18 State.

19 (4) Physician and hospital practice patterns
20 contribute to the total cost and quality of care for
21 each medicare beneficiary in each State.

22 (5) The original medicare fee-for-service pro-
23 gram under parts A and B of title XVIII of the So-
24 cial Security Act does not include a mechanism to
25 pay for interventions designed to improve quality of

1 care. While the framework for payments to managed
 2 care organizations under the Medicare+Choice pro-
 3 gram under part C of such title allows for the re-
 4 allocation of capitation revenues to cover such things
 5 as disease state management and quality improve-
 6 ment infrastructure, even the most optimistic projec-
 7 tions for managed care enrollment leave the majority
 8 of medicare beneficiaries in the original medicare
 9 fee-for-service program.

10 **SEC. 702. DEMONSTRATION PROJECT TO ENCOURAGE THE**
 11 **PROVISION OF HIGH-QUALITY, COST-EFFEC-**
 12 **TIVE INPATIENT HOSPITAL SERVICES.**

13 (a) PURPOSE.—The purpose of the demonstration
 14 project conducted under this section is to encourage the
 15 provision of high-quality, cost-effective health care to
 16 beneficiaries under the medicare program under title
 17 XVIII of the Social Security Act (42 U.S.C. 1395 et seq.)
 18 by providing incentive payments to hospitals located in
 19 States in which high-quality and cost-effective services are
 20 being provided in order to finance further quality improve-
 21 ments.

22 (b) DEMONSTRATION PROJECT.—

23 (1) ESTABLISHMENT.—Not later than 6
 24 months after the date of enactment of this Act, the

1 Secretary shall establish a demonstration project
2 under which—

3 (A) the Secretary provides bonus payments
4 to providers of inpatient hospital services that
5 deliver high-quality health care at low costs in
6 accordance with the methodology established by
7 the Agency for Healthcare Research and Qual-
8 ity under paragraph (2); and

9 (B) the Secretary funds a plan at each site
10 to increase the number of providers of inpatient
11 hospital services that provide high-quality, low-
12 cost health care to beneficiaries under the medi-
13 care program under title XVIII of the Social
14 Security Act.

15 (2) VALUE AND QUALITY RANKING METHOD-
16 OLOGY.—

17 (A) IN GENERAL.—The Agency for
18 Healthcare Research and Quality shall establish
19 a value and quality ranking methodology under
20 which the Secretary awards bonus payments to
21 providers of inpatient hospital services located
22 in those States that demonstrate that such pro-
23 viders in the State are providing high value be-
24 cause of the high-quality, cost-effective health

1 care services being provided to medicare bene-
2 ficiaries.

3 (B) BASIS.—The methodology established
4 under subparagraph (A) shall be based on the
5 rank and performance on medicare quality indi-
6 cators contained in the article entitled “Quality
7 of Medical Care Delivered to Medicare Bene-
8 ficiaries: A Profile at State and National Lev-
9 els” published in the October 4, 2000, issue of
10 the Journal of the American Medical Associa-
11 tion or such other quality indicators as the Sec-
12 retary determines to be appropriate.

13 (3) SITES.—The Secretary shall select 2 States
14 in which to conduct the demonstration project—

15 (A) from among the top 25 States (as
16 ranked using the methodology established under
17 paragraph (2)) that are also among the group
18 of 25 States with the lowest per capita cost to
19 the medicare program under title XVIII of the
20 Social Security Act during the most recent 12-
21 month period for which data are available; and

22 (B) based upon information contained in
23 applications submitted to the Secretary by such
24 States at such time, in such form and manner,

1 and containing such information as the Sec-
2 retary may require.

3 (4) DURATION OF PROJECT.—The demonstra-
4 tion project shall be conducted over a 5-year period.

5 (c) REPORTS.—The Secretary shall submit to the ap-
6 propriate committees of Congress interim reports on the
7 demonstration project and a final report on the project
8 within 6 months after the conclusion of the project to-
9 gether with recommendations for such legislative or ad-
10 ministrative action as the Secretary determines appro-
11 priate.

12 (d) WAIVER.—The Secretary shall waive such provi-
13 sions of titles XI and XVIII of the Social Security Act
14 (42 U.S.C. 1301 et seq. and 1395 et seq.) as may be nec-
15 essary to conduct the demonstration project under this
16 section.

17 (e) DEFINITIONS.—In this section:

18 (1) PROVIDER OF INPATIENT HOSPITAL SERV-
19 ICES.—The term “provider of inpatient hospital
20 services” means any individual or entity that re-
21 ceives payment under the medicare program under
22 title XVIII of the Social Security Act (42 U.S.C.
23 1395 et seq.) for providing an inpatient hospital
24 service (as defined in section 1861(b) of such Act
25 (42 U.S.C. 1395x(b))).

1 (2) SECRETARY.—The term “Secretary” means
2 the Secretary of Health and Human Services.

3 (f) FUNDING.—There are appropriated from the Fed-
4 eral Hospital Insurance Trust Fund under section 1817
5 of the Social Security Act (42 U.S.C. 1395i) such sums
6 as the Secretary determines are necessary to conduct the
7 demonstration project under this section.

8 **SEC. 703. DEMONSTRATION PROJECT TO ENCOURAGE THE**
9 **PROVISION OF HIGH-QUALITY, COST-EFFEC-**
10 **TIVE PHYSICIANS’ SERVICES.**

11 (a) PURPOSE.—The purpose of the demonstration
12 project conducted under this section is to encourage the
13 provision of high-quality, cost-effective health care to
14 beneficiaries under the medicare program under title
15 XVIII of the Social Security Act (42 U.S.C. 1395 et seq.)
16 by providing incentive payments to physicians located in
17 States in which high-quality and cost-effective services are
18 being provided in order to finance further quality improve-
19 ments.

20 (b) DEMONSTRATION PROJECT.—

21 (1) ESTABLISHMENT.—Not later than 6
22 months after the date of enactment of this Act, the
23 Secretary shall establish a demonstration project
24 under which—

(A) the Secretary provides bonus payments to providers of physicians' services that deliver high-quality, cost-effective health care in accordance with the methodology established by the Agency for Healthcare Research and Quality under paragraph (2); and

(B) the Secretary funds a plan in each State to increase the number of providers of physicians' services that provide high-quality, cost-effective health care to beneficiaries under the medicare program under title XVIII of the Social Security Act.

(2) VALUE AND QUALITY RANKING METHODOLOGY.—

(A) IN GENERAL.—The Agency for Healthcare Research and Quality shall establish a value and quality ranking methodology under which the Secretary awards bonus payments to providers of physicians' services located in those States that demonstrate that such providers in the State are providing high value because of the high-quality, cost-effective health care services being provided to medicare beneficiaries.

(B) BASIS.—The methodology established under subparagraph (A) shall be based on the

1 rank and performance on medicare quality indi-
2 cators contained in the article entitled “Quality
3 of Medical Care Delivered to Medicare Bene-
4 ficiaries: A Profile at State and National Lev-
5 els” published in the October 4, 2000, issue of
6 the Journal of the American Medical Associa-
7 tion or such other quality indicators as the Sec-
8 retary determines to be appropriate.

9 (3) SITES.—The Secretary shall select 2 States
10 in which to conduct the demonstration project—

11 (A) from among the top 25 States (as
12 ranked using the methodology established under
13 paragraph (2)) that are also among the 25
14 States with the lowest per capita cost to the
15 medicare program under title XVIII of the So-
16 cial Security Act during the most recent 12-
17 month period for which data are available; and

18 (B) based upon information contained in
19 applications submitted to the Secretary by such
20 States at such time, in such form and manner,
21 and containing such information as the Sec-
22 retary may require.

23 (4) DURATION OF PROJECT.—The demonstra-
24 tion project shall be conducted over a 5-year period.

1 (c) REPORTS.—The Secretary shall submit to the ap-
 2 propriate committees of Congress interim reports on the
 3 demonstration project and a final report on the project
 4 within 6 months after the conclusion of the project to-
 5 gether with recommendations for such legislative or ad-
 6 ministrative action as the Secretary determines appro-
 7 priate.

8 (d) WAIVER.—The Secretary shall waive such provi-
 9 sions of titles XI and XVIII of the Social Security Act
 10 (42 U.S.C. 1301 et seq. and 1395 et seq.) as may be nec-
 11 essary to conduct the demonstration project under this
 12 section.

13 (e) DEFINITIONS.—In this section:

14 (1) PROVIDER OF PHYSICIANS' SERVICES.—The
 15 term “provider of physicians’ services” means any
 16 individual or entity that receives payment under the
 17 medicare program under title XVIII of the Social
 18 Security Act (42 U.S.C. 1395 et seq.) for providing
 19 physicians’ services (as defined in section 1861(q) of
 20 such Act (42 U.S.C. 1395x(q))).

21 (2) SECRETARY.—The term “Secretary” means
 22 the Secretary of Health and Human Services.

23 (f) FUNDING.—There are appropriated from the Fed-
 24 eral Supplementary Medical Insurance Trust Fund under
 25 section 1841 of the Social Security Act (42 U.S.C. 1395t)

1 such sums as the Secretary determines are necessary to
 2 conduct the demonstration project under this section.

3 **Subtitle B—Graduate Medical** 4 **Education Demonstration**

5 **SEC. 711. CLINICAL ROTATION DEMONSTRATION PROJECT.**

6 (a) **ESTABLISHMENT.**—Not later than 6 months after
 7 the date of enactment of this Act, the Secretary shall es-
 8 tablish a demonstration project that provides for dem-
 9 onstration grants designed to provide financial or other
 10 incentives to hospitals to attract educators and clinical
 11 practitioners so that hospitals that serve beneficiaries
 12 under the medicare program under title XVIII of the So-
 13 cial Security Act (42 U.S.C. 1395 et seq.) who are resi-
 14 dents of underserved areas may host clinical rotations.

15 (b) **DURATION OF PROJECT.**—The demonstration
 16 project shall be conducted over a 5-year period.

17 (c) **FUNDING.**—

18 (1) **IN GENERAL.**—Subject to paragraph (2),
 19 the Secretary shall pay the costs of the demonstra-
 20 tion project conducted under this section from the
 21 Federal Hospital Insurance Trust Fund under sec-
 22 tion 1817 of the Social Security Act (42 U.S.C.
 23 1395i).

1 (2) CAP ON FUNDING.—The Secretary may not
2 expend more than \$20,000,000 to conduct the dem-
3 onstration project under this section.

4 (3) BUDGET NEUTRALITY FOR DEMONSTRA-
5 TION PROJECT.—Notwithstanding any other provi-
6 sion of law, the Secretary shall provide for an appro-
7 priate reduction in the aggregate amount of addi-
8 tional payments made under subsection (d)(5)(B) of
9 section 1886 of the Social Security Act (42 U.S.C.
10 1395ww) for the indirect costs of medical education
11 and for direct graduate medical education costs
12 under subsection (h) of such section to reflect any
13 increase in amounts expended from the Federal Hos-
14 pital Insurance Trust Fund as a result of the dem-
15 onstration project conducted under this section.

16 (d) REPORTS.—The Secretary shall submit to the ap-
17 propriate committees of Congress interim reports on the
18 demonstration project and a final report on such project
19 within 6 months after the conclusion of the project to-
20 gether with recommendations for such legislative or ad-
21 ministrative action as the Secretary determines appro-
22 priate.

23 (e) WAIVER.—The Secretary shall waive such provi-
24 sions of titles XI and XVIII of the Social Security Act
25 (42 U.S.C. 1301 et seq. and 1395 et seq.) as may be nec-

1 essary to conduct the demonstration project under this
2 section.

3 (f) DEFINITIONS.—In this section:

4 (1) HOSPITAL.—The term “hospital” means
5 any subsection (d) hospital (as defined in section
6 1886(d)(1)(B) of the Social Security Act (42 U.S.C.
7 1395ww(d)(1)(B)) that had indirect or direct costs
8 of medical education during the most recent cost re-
9 porting period preceding the date of enactment of
10 this Act.

11 (2) SECRETARY.—The term “Secretary” means
12 the Secretary of Health and Human Services.

13 (3) UNDERSERVED AREA.—The term “under-
14 served area” means such medically underserved
15 urban areas and medically underserved rural areas
16 as the Secretary may specify.

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