

105TH CONGRESS  
1ST SESSION

# H. R. 1263

To amend the Public Health Service Act to provide access to health care insurance coverage for children and to amend the Internal Revenue Code of 1986 to increase the excise taxes on tobacco products for the purpose of offsetting the Federal budgetary costs associated such insurance coverage.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 9, 1997

Mr. PALLONE (for himself, Mrs. ROUKEMA, Ms. ESHOO, Ms. PELOSI, and Mr. McDERMOTT) introduced the following bill; which was referred to the Committee on Commerce, and in addition to the Committees on Ways and Means and Education and the Workforce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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## A BILL

To amend the Public Health Service Act to provide access to health care insurance coverage for children and to amend the Internal Revenue Code of 1986 to increase the excise taxes on tobacco products for the purpose of offsetting the Federal budgetary costs associated such insurance coverage.

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

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

2 (a) SHORT TITLE.—This Act may be cited as the  
3 “Child Health Insurance and Lower Deficit Act”.

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

- Sec. 1. Short title; table of contents.
- Sec. 2. Purposes.
- Sec. 3. Amendment to Public Health Service Act.

“TITLE XXVIII—CHILDREN’S HEALTH INSURANCE GRANT  
PROGRAM

“PART A—STATE PROGRAMS

- “Sec. 2801. Authority to establish.
- “Sec. 2802. Requirements for qualifying children’s policy.
- “Sec. 2803. Requirements for qualifying children’s direct service benefit option.
- “Sec. 2804. Other requirements.

“PART B—ASSISTANCE

“Subpart 1—Assistance to Families

- “Sec. 2821. Eligibility determinations.
- “Sec. 2822. Assistance to families.
- “Sec. 2823. Penalties for material misrepresentation and false information.
- “Sec. 2824. Aggregate Federal grant payments.
- “Sec. 2825. Authorization of appropriations and deficit reduction.

“Subpart 2—Services for Pregnant Women, New Mothers, and Infants

- “Sec. 2831. Program for pregnant women and infants.

“PART C—DEFINITIONS AND MISCELLANEOUS PROVISIONS

“Subpart 1—Definitions

- “Sec. 2841. Definitions.

“Subpart 2—Miscellaneous Provisions

- “Sec. 2851. Other contributions to premiums.
  - “Sec. 2852. Maintenance of effort.
  - “Sec. 2853. Application of other requirements and State flexibility.
  - “Sec. 2854. Regulations.
- Sec. 4. Increase in excise taxes on tobacco products.
  - Sec. 5. Conforming amendments.
  - Sec. 6. Effective date.

1 **SEC. 2. PURPOSES.**

2 It is the purpose of this Act to benefit American fami-  
3 lies by—

4 (1) providing grants to States to develop and  
5 implement a voluntary program to help purchase  
6 health coverage for uninsured, needy children; and

7 (2) acquiring resources targeted to help reduce  
8 the Federal budget deficit that, if unchecked, will re-  
9 quire American families to devote an increasing pro-  
10 portion of their tax liability to service the debt.

11 **SEC. 3. AMENDMENT TO PUBLIC HEALTH SERVICE ACT.**

12 The Public Health Service Act (42 U.S.C. 201 et  
13 seq.) is amended by adding at the end the following:

14 **“TITLE XXVIII—CHILDREN’S**  
15 **HEALTH INSURANCE GRANT**  
16 **PROGRAM**

17 **“PART A—VOLUNTARY STATE GRANT PROGRAMS**

18 **“SEC. 2801. AUTHORITY TO ESTABLISH.**

19 **“(a) STATE ELECTION.—**Each State may elect to es-  
20 tablish a children’s health insurance program that com-  
21 plies with this title.

22 **“(b) STATE PLAN.—**

23 **“(1) IN GENERAL.—**To apply to participate  
24 under this part, a State shall, not later than 90 days  
25 prior to the beginning of the calendar year in which  
26 the State program is to begin, prepare and submit

1 to the Secretary a State plan for the operation of  
2 the program.

3 “(2) APPROVAL BY SECRETARY.—The State  
4 plan submitted by a State under paragraph (1) must  
5 be approved by the Secretary in order for the State  
6 to be eligible to receive a grant under this title.

7 “(c) USE OF FUNDS.—Under a program under this  
8 title, a participating State shall provide subsidies, consist-  
9 ent with section 2822, for coverage under a qualifying  
10 children’s policy and a qualifying children’s direct service  
11 benefit option.

12 **“SEC. 2802. REQUIREMENTS FOR QUALIFYING CHILDREN’S**  
13 **POLICY.**

14 “(a) IN GENERAL.—Each participating State—

15 “(1) shall contract with health insurance issu-  
16 ers to make qualifying children’s policies available to  
17 subsidy eligible children in the State;

18 “(2) shall ensure that qualifying children’s poli-  
19 cies are available to all eligible children in the State  
20 and that each eligible child has the opportunity to  
21 enroll for coverage under such policies;

22 “(3) shall ensure that a qualifying children’s  
23 policy provides coverage for the care described in  
24 subsections (b) and (c); and

1           “(4) shall provide for the payment of premium  
2           and cost sharing subsidies (in amounts as defined by  
3           the State in accordance with section 2822), that  
4           may include vouchers, to or on behalf of subsidy eli-  
5           gible children, except that a State electing to partici-  
6           pate may not—

7                   “(A) provide a premium subsidy that is  
8                   less than 95 percent for a subsidy eligible child  
9                   in a family with a family income below 185 per-  
10                  cent of the poverty line for a family of the size  
11                  involved;

12                  “(B) allow the imposition of cost-sharing  
13                  requirements for preventive services provided to  
14                  a subsidy eligible child; or

15                  “(C) enter into a contract with a health in-  
16                  surance issuer offering a qualifying children’s  
17                  policy that requires that a subsidy eligible child  
18                  (in a family with a family income below 150  
19                  percent of the poverty line for a family of the  
20                  size involved) pay more than 20 percent of the  
21                  cost-sharing otherwise applied under such con-  
22                  tract as applied with respect to a particular  
23                  item or service unless the cost-sharing required  
24                  under the contract involved has been deemed by  
25                  the Secretary as not being a barrier to care for

1 children of families below 150 percent of pov-  
2 erty line for a family of the size involved.

3 “(b) COVERAGE FOR MEDICAL CARE.—For purposes  
4 of this title, a qualifying children’s policy is a policy for  
5 an eligible child that provides coverage for medical care  
6 for such child that is the equivalent of the medical assist-  
7 ance available (other than cost sharing) to children under  
8 the State plan under title XIX of the Social Security Act  
9 (42 U.S.C. 1396 et seq.).

10 “(c) ACCESS TO SPECIALITY CARE FOR SPECIAL  
11 NEEDS CHILDREN.—Each participating State shall as-  
12 sure that each qualifying children’s policy ensure access  
13 to pediatric primary and speciality care providers, includ-  
14 ing centers of pediatric specialized treatment expertise.

15 “(d) ACCESS.—

16 “(1) ACCESS TO POLICIES.—In carrying out  
17 subsection (a)(1), a participating State shall, subject  
18 to the funding limitation described in section  
19 2822(d), ensure that subsidy eligible children have  
20 access to a qualifying children’s policy provided by  
21 a health insurance issuer serving the area in which  
22 the eligible child resides. Such policies may be of-  
23 fered to eligible children residing in the State  
24 through existing public and private purchasing spon-  
25 sors.

1           “(2) TO TRADITIONAL PROVIDERS.—A partici-  
2           pating State shall ensure that a qualifying children’s  
3           policy provides access to traditional providers who  
4           have experience in serving populations covered under  
5           this title and in areas in which such populations re-  
6           side.

7   **“SEC. 2803 REQUIREMENTS FOR QUALIFYING CHILDREN’S**  
8           **DIRECT SERVICE BENEFIT OPTION.**

9           “(a) IN GENERAL.—Each participating State—

10           “(1) for each area of the State served by a  
11           health center (as defined in section 330), shall con-  
12           tract directly with the health center to provide serv-  
13           ices under the program under this title for subsidy  
14           eligible children who choose to receive services from  
15           the health center;

16           “(2) shall ensure that under a qualifying chil-  
17           dren’s direct service benefit option, coverage is pro-  
18           vided for the care described in subsections (c) and  
19           (d);

20           “(3) shall ensure that services described in sub-  
21           section (c) which are not made available by a health  
22           center are provided either—

23           “(A) through contracts for direct payment  
24           to specific networks of providers; or

1           “(B) through the purchase of wraparound  
2           insurance; and

3           “(4) shall provide for payments in accordance  
4           with subsection (b).

5           “(b) PAYMENTS.—

6           “(1) IN GENERAL.—Under a qualifying chil-  
7           dren’s direct service benefit option, a State may  
8           not—

9           “(A) require that a subsidy eligible child in  
10           a family with a family income below 185 per-  
11           cent of the poverty line for a family of the size  
12           involved pay more than 5 percent of the  
13           capitated payment rate;

14           “(B) allow the imposition of cost-sharing  
15           requirements for preventive services provided to  
16           a subsidy eligible child; or

17           “(C) enter into a contract that requires  
18           that a subsidy eligible child (in a family with a  
19           family income below 150 percent of the poverty  
20           line for a family of the size involved) pay more  
21           than 20 percent of the cost-sharing otherwise  
22           applied by the health center, unless the cost-  
23           sharing required under the contract involved  
24           has been deemed by the Secretary as not being  
25           a barrier to care for children of families below

1           150 percent of the poverty line for a family of  
2           the size involved.

3           “(c) **COVERAGE FOR MEDICAL CARE.**—For purposes  
4 of this title, a qualifying children’s direct service benefit  
5 option is an option for a eligible child that provides cov-  
6 erage for medical care for such child that is the equivalent  
7 of the medical assistance available (other than cost shar-  
8 ing) to children under the State plan under title XIX of  
9 the Social Security Act (42 U.S.C. 1396 et seq.).

10          “(d) **ACCESS TO SPECIALITY CARE FOR SPECIAL**  
11 **NEEDS CHILDREN.**—Each qualified children’s direct serv-  
12 ice benefit option shall assure access to pediatric primary  
13 and speciality care providers, including centers of pediatric  
14 specialized treatment expertise.

15          **“SEC. 2804. OTHER REQUIREMENTS.**

16          “(a) **IN GENERAL.**—A participating State shall—

17                 “(1) take steps to ensure that information  
18                 about the availability of the program, requirements  
19                 for family participation in the program, benefits of-  
20                 fered, and the application process are disseminated  
21                 effectively to potential participants;

22                 “(2) have in effect an outreach system under  
23                 which families eligible for assistance under this title  
24                 are assisted in enrolling in the State program and

1 are enrolled at a wide variety of locations, including  
2 through of traditional providers of care;

3 “(3) ensure that every subsidy eligible children  
4 have the opportunity to apply for assistance under  
5 the State program under this title pursuant to State  
6 law;

7 “(4) if the State determines that a child is eligi-  
8 ble for cost-sharing assistance under this title, notify  
9 the health plan in which such child is participating  
10 in a timely manner of such eligibility;

11 “(5) provide to any subsidy eligible child whose  
12 claim for assistance under the State program is de-  
13 nied or is not acted on within a reasonable period  
14 of time, an opportunity under State law for an ad-  
15 ministrative hearing on such denial or inaction be-  
16 fore the State agency;

17 “(6) provide to the public, a general description  
18 of the rules (including the objective criteria used) es-  
19 tablished by the State for making decisions concern-  
20 ing eligibility for assistance under the State pro-  
21 gram; and

22 “(7) use funds received under this title only in  
23 accordance with the provisions of this title.

1       “(b) DESIGNATION OF STATE AGENCY.—A partici-  
2     pating State may designate an appropriate State agency  
3     to administer the State program under this title.

4                       “PART B—ASSISTANCE

5                       “Subpart 1—Assistance to Families

6     **“SEC. 2821. ELIGIBILITY DETERMINATIONS.**

7       “(a) IN GENERAL.—The following requirements shall  
8     apply with respect to eligibility determinations for assist-  
9     ance under this title:

10                   “(1) APPLICATIONS.—A State program shall  
11     provide that an individual may file an application for  
12     assistance in any manner determined appropriate by  
13     the State. Such applications shall—

14                   “(A) be in an understandable form and  
15     generally accessible to individuals;

16                   “(B) require the provision of information  
17     necessary to make a determination as to wheth-  
18     er a child is eligible for assistance; and

19                   “(C) require attachment of such docu-  
20     mentation as deemed necessary by the Sec-  
21     retary in order to verify eligibility for assist-  
22     ance.

23                   “(2) TERM.—The State program may provide  
24     for a determination of eligibility under this section  
25     to be effective for a 6-month period or longer.

1       “(b) COORDINATION.—Eligibility determinations  
2 made pursuant to this section may be coordinated with  
3 determinations of eligibility for State-administered health  
4 programs to the extent that such coordination brings  
5 about administrative efficiencies.

6 **“SEC. 2822. ASSISTANCE TO FAMILIES.**

7       “(a) STATE APPLICABLE INCOME CRITERIA.—For  
8 purposes of this title, the applicable income criteria used  
9 by the State for purposes of determining whether a child  
10 is a subsidy eligible child, shall be based on the income  
11 of the family of the subsidy eligible child expressed as a  
12 percentage of the poverty line for a family of the size in-  
13 volved. In establishing the applicable eligibility criteria and  
14 subsidy level, the State shall give priority to families in  
15 the State with the lowest family incomes, except that the  
16 State shall establish a higher income criterion for families  
17 with a disabled child.

18       “(b) PAYMENTS.—

19               “(1) IN GENERAL.—The amount of the assist-  
20               ance available to a subsidy eligible child shall be  
21               paid directly to—

22                       “(A) in the case of a child enrolled in a  
23                       qualifying children’s policy, the health insur-  
24                       ance issuer offering the qualifying children’s  
25                       policy (unless such plan is a group health plan

1 in which case such payment may be made di-  
2 rectly to the group health plan or the health in-  
3 surance issuer offering health insurance cov-  
4 erage through the group health plan, or to the  
5 individual); or

6 “(B) in the case of an individual receiving  
7 benefits under a qualifying children’s direct  
8 service benefit option, to the provider and the  
9 health insurance issuer if applicable with whom  
10 the State has contracted under section 2803.

11 “(2) INDIVIDUAL RESPONSIBILITY.—An individ-  
12 ual shall be responsible for any portion of the pre-  
13 mium or cost sharing not subsidized by the State.

14 “(c) SPECIAL RULE.—

15 “(1) IN GENERAL.—If a subsidy eligible child  
16 enrolls in a group health plan, a premium subsidy  
17 under this title shall be applied only to the amount  
18 of the employee contribution for coverage for a sub-  
19 sidy eligible child.

20 “(2) RULE OF CONSTRUCTION.—Nothing in  
21 this section shall be construed to require that an em-  
22 ployer provide a qualifying children’s policy to an eli-  
23 gible child regardless of whether such child is eligible  
24 for a subsidy under this title.



1 under this title that bears the same relationship  
2 to the amount appropriated for such year under  
3 section 2825 (and available after the reserva-  
4 tion under paragraph (7)), as the total number  
5 of uninsured eligible children in the State in a  
6 base year as determined appropriate by the Sec-  
7 retary bears to the total number of uninsured  
8 eligible children in all participating States in  
9 such base year.

10 “(B) STATE ALLOCATION ADJUST-  
11 MENTS.—

12 “(i) STUDY.—Not later than Septem-  
13 ber 30, 1998, the Secretary shall conduct  
14 a study, and prepare and submit to the ap-  
15 propriate committees of Congress a report,  
16 concerning methodology for providing the  
17 State allotment under subparagraph (A)  
18 that takes into account an equitable ad-  
19 justment to the formula based on vari-  
20 ations in costs among States.

21 “(ii) IMPLEMENTATION OF METH-  
22 ODOLOGY.—If determined appropriate and  
23 feasible by the Secretary, the Secretary  
24 shall, not later than January 1, 1999, im-  
25 plement by regulation a methodology for

1           the determination of the maximum amount  
2           under subparagraph (A) that takes into ac-  
3           count the relative number of uninsured eli-  
4           gible children in a State in the base year  
5           described in subparagraph (A) and the rel-  
6           ative cost of the delivery of services to  
7           those children.

8           “(2) PAYMENT.—Subject to paragraph (1), the  
9           Secretary shall provide for payment under a grant to  
10          each participating State for each calendar quarter,  
11          beginning with any quarter beginning on or after  
12          April 1, 1998, of an amount equal to—

13                 “(A)(i) 100 percent of the total amount es-  
14                 timated by the Secretary to have been expended  
15                 by the State during such prior quarter for pre-  
16                 mium and cost-sharing assistance under this  
17                 title for enrollment in qualifying children’s poli-  
18                 cies and for coverage under the qualifying chil-  
19                 dren’s direct service benefit option through the  
20                 programs operated under part A; less

21                 “(ii) the State matching amount as deter-  
22                 mined under paragraph (3) for such prior quar-  
23                 ter; and

24                 “(B) 50 percent of the total amount esti-  
25                 mated by the Secretary to be expended by the

1 State during such prior quarter for the proper  
2 and efficient administration of the program de-  
3 scribed in this part.

4 “(3) STATE MATCHING PERCENTAGE.—

5 “(A) IN GENERAL.—With respect to the  
6 calendar quarter for which the payment is to be  
7 made under this section, the State will be re-  
8 sponsible for contributing an amount equal to  
9 40 percent of the percentage of the amount the  
10 State is responsible for expending for medical  
11 assistance under title XIX of the Social Secu-  
12 rity Act, based on the State percentage deter-  
13 mined under section 1905(b) of such Act (42  
14 U.S.C. 1396d(b)), for the State for the calendar  
15 quarter involved.

16 “(B) LIMITATION.—In no case shall the  
17 State responsibility under subparagraph (A) for  
18 a calendar quarter be less than an amount  
19 equal to 10 percent of the amount determined  
20 under paragraph (2)(A)(i) for the State for the  
21 calendar quarter involved.

22 “(C) TERRITORIES.—In the case of Puerto  
23 Rico, the Virgin Islands, Guam, American  
24 Samoa, and the Northern Mariana Islands, the  
25 State percentage for purposes of determining

1 the State matching amount under subpara-  
2 graph (A) shall be 20 percent.

3 “(4) AVAILABILITY OF FUNDS.—Except as pro-  
4 vided in paragraph (5), amounts provided to a State  
5 under this section shall remain available until ex-  
6 pended by the State.

7 “(5) REDISTRIBUTION.—The Secretary shall  
8 establish a procedure for the redistribution of any  
9 funds—

10 “(A) not expended by a State under this  
11 title; and

12 “(B) as determined by the Secretary, after  
13 consultation with the governor of the State,  
14 that are unlikely to be used in the future by the  
15 State.

16 “(6) STATE REQUEST FOR REDUCTION IN  
17 FUNDS.—Nothing in this section shall be construed  
18 to prohibit a State from requesting only a portion of  
19 the amount allotted to the State under this section.

20 “(7) RESERVATION.—

21 “(A) IN GENERAL.—Of the amount appro-  
22 priated to carry out this Act for a fiscal year,  
23 the Secretary shall reserve .15 percent of such  
24 amount for allocation among the territories de-  
25 scribed in paragraph (2)(C).

1           “(B) ALLOCATION.—A territory described  
2           in paragraph (2)(C) shall be eligible to receive  
3           an amount that bears the same relationship to  
4           the amount reserved for such year under sub-  
5           paragraph (A), as the total number of unin-  
6           sured eligible children in the territory in a base  
7           year as determined appropriate by the Sec-  
8           retary bears to the total number of uninsured  
9           eligible children in all participating territories  
10          in such base year.

11          “(b) REDUCTION IN PAYMENTS FOR ADMINISTRA-  
12          TIVE ERRORS.—

13           “(1) IN GENERAL.—In the case of administra-  
14          tive errors described in paragraph (2), matching  
15          payments available to a State under subsection (a)  
16          shall be reduced by an amount determined appro-  
17          priate by the Secretary.

18           “(2) ADMINISTRATIVE ERRORS DESCRIBED.—  
19          The administrative errors described in this para-  
20          graph include the following:

21           “(A) An eligibility error rate for premium  
22          assistance to the extent the applicable error  
23          rate exceeds the maximum permissible error  
24          rate specified by the Secretary.



- 1           “(1) for fiscal year 1998, \$3,000,000,000;  
2           “(2) for fiscal year 1999, \$3,000,000,000;  
3           “(3) for fiscal year 2000, \$2,000,000,000;  
4           “(4) for fiscal year 2001, \$1,000,000,000; and  
5           “(5) for fiscal year 2002, \$1,000,000,000.

6 Any amount of revenue available under this subsection  
7 shall be deposited into the Treasury and used for deficit  
8 reduction.

9           “(c) REDUCTION IN AUTHORIZED AMOUNT.—

10           “(1) IN GENERAL.—If, with respect to a fiscal  
11 year, the total estimated amount of revenue derived  
12 for the financing of the program under this title is  
13 less than the total target amount determined under  
14 paragraph (2), then the amount referred to for the  
15 following fiscal year under subsection (a) shall be re-  
16 duced by the amount by which the amount of such  
17 estimated revenue is less than the total target  
18 amount determined under paragraph (2) for such  
19 fiscal year multiplied by  $\frac{2}{3}$ .

20           “(2) TOTAL TARGET AMOUNT.—For purposes  
21 of paragraph (1), the total target amount for a fiscal  
22 year shall be equal to the sum of—

23           “(A) the amount authorized to be appro-  
24 priated for such year under subsection (a); and



1       “(c) MAINTENANCE OF EFFORT.—With respect to a  
2 State that carries out a program under this section, funds  
3 made available under this title for such program shall be  
4 used to supplement and not supplant current State spend-  
5 ing for the needs described in subsection (a).

6       “PART C—DEFINITIONS AND MISCELLANEOUS  
7 PROVISIONS

8               “Subpart 1—Definitions

9       “**SEC. 2841. DEFINITIONS.**

10       “(a) IN GENERAL.—In this title:

11               “(1) ELIGIBLE CHILD.—The term ‘eligible  
12 child’ means an individual who is 18 years of age or  
13 younger.

14               “(2) PARTICIPATING STATE.—The term ‘par-  
15 ticipating State’ means any State that elects to es-  
16 tablish a program under part A.

17               “(3) POVERTY LINE.—The term ‘poverty line’  
18 means the income official poverty line (as defined by  
19 the Office of Management and Budget, and revised  
20 annually in accordance with section 673(2) of the  
21 Omnibus Budget Reconciliation Act of 1981) that is  
22 applicable to a family of the size involved.

23               “(4) QUALIFYING CHILDREN’S POLICY.—The  
24 term ‘qualifying children’s policy’ means a policy  
25 that meets the standards described in section 2802.

1           “(5) QUALIFYING CHILDREN’S DIRECT SERVICE  
2 BENEFIT OPTION.—The term ‘qualifying children’s  
3 direct service benefit option’ means the provision of  
4 direct medical assistance under the standards de-  
5 scribed in section 2803.

6           “(6) STATE.—The term ‘State’ means each of  
7 the several States, the District of Columbia, Puerto  
8 Rico, the Virgin Islands, Guam, American Samoa,  
9 and the Northern Mariana Islands.

10           “(7) SUBSIDY ELIGIBLE CHILD.—The term  
11 ‘subsidy eligible child’ means a child who—

12           “(A) meets reasonable eligibility criteria  
13 established by the State, and has a family in-  
14 come that falls within the applicable income cri-  
15 teria (as defined in section 2822), for purposes  
16 of providing subsidies under the State program;

17           “(B) is an eligible child;

18           “(C) is a citizen or qualified alien (as de-  
19 fined in section 431(b) of the Personal Respon-  
20 sibility and Work Opportunity Reconciliation  
21 Act of 1996 (8 U.S.C. 1641(b));

22           “(D) is not eligible for medical assistance  
23 under the State plan under title XIX of the So-  
24 cial Security Act, except that nothing in this  
25 title shall be construed to require that an indi-

1           vidual be denied medical assistance under a  
2           State plan under title XIX of the Social Secu-  
3           rity Act (42 U.S.C. 1396 et seq.) in order for  
4           that child to be eligible to receive assistance  
5           under the State program under this title; and

6           “(E) has not been covered under a group  
7           health plan (unless such coverage was termi-  
8           nated as a result of a change in employment  
9           status) during the 6-month period ending on  
10          the date on which the individual applies for  
11          subsidy-eligible health coverage under this title.

12          For purposes of subparagraph (E), enrollment in a  
13          health plan under a COBRA continuation provision  
14          (as defined in section 2791(d)(4)) shall not con-  
15          stitute enrollment in a group health plan.

16          “(b) DEFINITIONS RELATING TO INCOME.—In this  
17          title:

18                 “(1) FAMILY INCOME.—The term ‘family in-  
19                 come’ means, with respect to an individual who—

20                         “(A) is not a dependent of another individ-  
21                         ual, the sum of the modified adjusted gross in-  
22                         comes for the individual, the individual’s  
23                         spouse, and children who are dependents of the  
24                         individual; or

1           “(B) is a dependent of another individual,  
2           the sum of the modified adjusted gross incomes  
3           for the other individual, the other individual’s  
4           spouse, and children who are dependents of the  
5           other individual.

6           The Secretary may promulgate rules under which  
7           spousal income may be disregarded in instances  
8           where a spouse is not part of a family unit.

9           “(2) DEPENDENT.—The term ‘dependent’ has  
10          the meaning given such term under section 152 of  
11          the Internal Revenue Code of 1986. For purposes of  
12          this paragraph, a child who is placed in foster care  
13          by a State agency shall not be considered a depend-  
14          ent of another individual.

15          “(3) MODIFIED ADJUSTED GROSS INCOME.—  
16          The term ‘modified adjusted gross income’ means  
17          adjusted gross income (as defined in section 62(a) of  
18          the Internal Revenue Code of 1986)—

19                 “(A) determined without regard to sections  
20                 135, 162(l), 911, 931, and 933 of such Code,  
21                 and

22                 “(B) increased by—

23                         “(i) the amount of interest received or  
24                         accrued by the individual during the tax-  
25                         able year which is exempt from tax, and

1                   “(ii) the amount of the social security  
2                   benefits (as defined in section 86(d) of  
3                   such Code) received during the taxable  
4                   year to the extent not included in gross in-  
5                   come under section 86 of such Code.

6                   The determination under the preceding sentence  
7                   shall be made without regard to any carryover or  
8                   carryback.

9                   “(c) OTHER DEFINITIONS.—The term—

10                   “(1) ‘group health plan’ has the meaning given  
11                   the term in section 2791(a);

12                   “(2) ‘health insurance coverage’ has the mean-  
13                   ing given the term in section 2791(b)(1);

14                   “(3) ‘health insurance issuer’ has the meaning  
15                   given the term in section 2791(b)(2);

16                   “(4) ‘health maintenance organization’ has the  
17                   meaning given the term in section 2791(b)(3); and

18                   “(5) ‘network plan’ has the meaning given the  
19                   term in section 2791(B)(10).

20                   “(d) REFERENCES TO INDIVIDUAL.—For purposes of  
21                   this title, any reference to an individual shall include a  
22                   reference to the parent or guardian of such individual.

1 “Subpart 2—Miscellaneous Provisions

2 **“SEC. 2851. OTHER CONTRIBUTIONS TO PREMIUMS.**

3 “(a) GENERAL RULE.—Any employer which elects to  
4 make employer contributions on behalf of an individual  
5 who is an employee of such employer, or who is a depend-  
6 ent of such employee, for health insurance coverage shall  
7 not condition, or vary, such contributions with respect to  
8 any such individual by reason of such individual’s status  
9 as an individual eligible for assistance under part B.

10 “(b) ELIMINATION OF CONTRIBUTIONS.—An em-  
11 ployer shall not be treated as failing to meet the require-  
12 ments of subsection (a) if the employer ceases to make  
13 employer contributions for health insurance coverage for  
14 all its employees.

15 “(c) ENFORCEMENT.—The enforcement provisions  
16 applicable to group health insurance coverage under the  
17 amendments made by section 101(e)(2) of the Health In-  
18 surance Portability and Accountability Act of 1996 shall  
19 apply with respect to an employer that violates the provi-  
20 sions of this section in the same manner as such provisions  
21 apply to employers under such amendments.

22 **“SEC. 2852. MAINTENANCE OF EFFORT.**

23 “(a) MEDICAID.—A State that elects to participate  
24 under this title may not modify the eligibility requirements  
25 for children under the State program under title XIX of

1 the Social Security Act, as in effect on January 1, 1997  
2 (except that such requirements may be modified pursuant  
3 to an application for a waiver under section 1115 of the  
4 Social Security Act (42 U.S.C. 1315) submitted prior to  
5 January 1, 1997), in any manner that would have the ef-  
6 fect of reducing the eligibility of children for coverage  
7 under such program.

8 “(b) MAINTENANCE OF EFFORT.—Funds appro-  
9 priated pursuant to the authority of this Act shall be used  
10 to supplement and not supplant other Federal and State  
11 funds expended to provide services for disabled individ-  
12 uals.

13 **“SEC. 2853. APPLICATION OF OTHER REQUIREMENTS AND**  
14 **STATE FLEXIBILITY.—**

15 “(a) APPLICATION OF INSURANCE REQUIREMENTS  
16 UNDER TITLE XXVII.—For purposes of applying sections  
17 2701(a) through (e) and (g) (relating to limitations on  
18 preexisting conditions and increased portability) except  
19 those provisions relating to late enrollees, waiting periods,  
20 and election of alternative methods under section  
21 2701(c)(3)(B), 2702(a)(1) and (b) (relating to eligibility  
22 to enroll), 2711(a)(1)(A) (relating to guaranteed availabil-  
23 ity for eligible individuals), and 2711(c) and (d)(1) (relat-  
24 ing to special rules for network plans and financial capac-  
25 ity) to health insurance issuers offering a qualifying chil-

1 dren’s policy and health insurance issuers offering wrap-  
 2 around insurance under this title, a qualifying children’s  
 3 policy shall be deemed to be health insurance coverage of-  
 4 fered by a health insurance issuer in the small group mar-  
 5 ket, in connection with a group health plan, and an eligible  
 6 individual shall be considered a small employer for the  
 7 purposes of section 2711(a)(1)(A), (c) and (d)(1), except  
 8 that section 2701(b) shall apply to a qualifying children’s  
 9 policy offered to a subsidy eligible child.

10 “(b) STATE FLEXIBILITY.—Nothing in this section  
 11 shall be construed to prevent a State from establishing  
 12 or implementing standards or requirements—

13 “(1) not prescribed in this title; or

14 “(2) related to the issuance, renewal or port-  
 15 ability of health insurance under a qualifying chil-  
 16 dren’s policy or a qualifying children’s direct service  
 17 benefit option that provide greater protection or ben-  
 18 efit to an eligible child.

19 **“SEC. 2854. REGULATIONS.**

20 “The Secretary may issue regulations to implement  
 21 the program established under this title.”.

22 **SEC. 4. INCREASE IN EXCISE TAXES ON TOBACCO PROD-**  
 23 **UCTS.**

24 (a) CIGARETTES.—Section 5701(b) of the Internal  
 25 Revenue Code of 1986 is amended—

1           (1) in paragraph (1), by striking “\$12 per  
2           thousand (\$10 per thousand on cigarettes removed  
3           during 1991 or 1992)” and inserting “\$33.50 per  
4           thousand”, and

5           (2) in paragraph (2), by striking “\$25.20 per  
6           thousand (\$21 per thousand on cigarettes removed  
7           during 1991 or 1992)” and inserting “\$70.35 per  
8           thousand”.

9           (b) CIGARS.—Section 5701(a) of the Internal Reve-  
10          nue Code of 1986 is amended—

11           (1) in paragraph (1), by striking “\$1.125 cents  
12           per thousand (93.75 cents per thousand on cigars  
13           removed during 1991 or 1992)” and inserting  
14           “\$3.141 cents per thousand”, and

15           (2) by striking “equal to” and all that follows  
16           in paragraph (2) and inserting “equal to 35.59 per-  
17           cent of the price for which sold but not more than  
18           \$83.75 per thousand.”

19           (c) CIGARETTE PAPERS.—Section 5701(c) of the In-  
20          ternal Revenue Code of 1986 is amended by striking “0.75  
21          cent (0.625 cent on cigarette papers removed during 1991  
22          or 1992)” and inserting “2.09 cents”.

23           (d) CIGARETTE TUBES.—Section 5701(d) of the In-  
24          ternal Revenue Code of 1986 is amended by striking “1.5

1 cents (1.25 cents on cigarette tubes removed during 1991  
2 or 1992)” and inserting “4.18 cents”.

3 (e) SMOKELESS TOBACCO.—Section 5701(e) of the  
4 Internal Revenue Code of 1986 is amended—

5 (1) in paragraph (1), by striking “36 cents (30  
6 cents on snuff removed during 1991 or 1992)” and  
7 inserting “\$6.09”, and

8 (2) by striking “12 cents (10 cents on chewing  
9 tobacco removed during 1991 or 1992)” in para-  
10 graph (2) and inserting “\$2.41”.

11 (f) PIPE TOBACCO.—Section 5701(f) of the Internal  
12 Revenue Code of 1986 is amended by striking “67.5 cents  
13 (56.25 cents on pipe tobacco removed during 1991 or  
14 1992)” and inserting “\$1.88”.

15 (g) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to articles removed (as defined in  
17 section 5702(k) of the Internal Revenue Code of 1986)  
18 after September 30, 1997.

19 (h) FLOOR STOCKS TAXES.—

20 (1) IMPOSITION OF TAX.—On tobacco products  
21 and cigarette papers and tubes manufactured in or  
22 imported into the United States which are removed  
23 before October 1, 1997, and held on such date for  
24 sale by any person, there is hereby imposed a tax in  
25 an amount equal to the excess of—

1           (A) the tax which would be imposed under  
2           section 5701 of the Internal Revenue Code of  
3           1986 on the article if the article had been re-  
4           moved on such date, over

5           (B) the prior tax (if any) imposed under  
6           section 5701 or 7652 of such Code on such ar-  
7           ticle.

8           (2) AUTHORITY TO EXEMPT CIGARETTES HELD  
9           IN VENDING MACHINES.—To the extent provided in  
10          regulations prescribed by the Secretary, no tax shall  
11          be imposed by paragraph (1) on cigarettes held for  
12          retail sale on October 1, 1997, by any person in any  
13          vending machine. If the Secretary provides such a  
14          benefit with respect to any person, the Secretary  
15          may reduce the \$500 amount in paragraph (3) with  
16          respect to such person.

17          (3) CREDIT AGAINST TAX.—Each person shall  
18          be allowed as a credit against the taxes imposed by  
19          paragraph (1) an amount equal to \$500. Such credit  
20          shall not exceed the amount of taxes imposed by  
21          paragraph (1) on October 1, 1997, for which such  
22          person is liable.

23          (4) LIABILITY FOR TAX AND METHOD OF PAY-  
24          MENT.—

1           (A) LIABILITY FOR TAX.—A person hold-  
2           ing cigarettes on October 1, 1997, to which any  
3           tax imposed by paragraph (1) applies shall be  
4           liable for such tax.

5           (B) METHOD OF PAYMENT.—The tax im-  
6           posed by paragraph (1) shall be paid in such  
7           manner as the Secretary shall prescribe by reg-  
8           ulations.

9           (C) TIME FOR PAYMENT.—The tax im-  
10          posed by paragraph (1) shall be paid on or be-  
11          fore January 1, 1998.

12          (5) ARTICLES IN FOREIGN TRADE ZONES.—  
13          Notwithstanding the Act of June 18, 1934 (48 Stat.  
14          998, 19 U.S.C. 81a) and any other provision of law,  
15          any article which is located in a foreign trade zone  
16          on October 1, 1997, shall be subject to the tax im-  
17          posed by paragraph (1) if—

18                (A) internal revenue taxes have been deter-  
19                mined, or customs duties liquidated, with re-  
20                spect to such article before such date pursuant  
21                to a request made under the 1st proviso of sec-  
22                tion 3(a) of such Act, or

23                (B) such article is held on such date under  
24                the supervision of a customs officer pursuant to  
25                the 2d proviso of such section 3(a).

1           (6) DEFINITIONS.—For purposes of this sub-  
2 section—

3           (A) IN GENERAL.—Terms used in this sub-  
4 section which are also used in section 5702 of  
5 the Internal Revenue Code of 1986 shall have  
6 the respective meanings such terms have in  
7 such section, as amended by this Act.

8           (B) SECRETARY.—The term “Secretary”  
9 means the Secretary of the Treasury or the  
10 Secretary’s delegate.

11          (7) CONTROLLED GROUPS.—Rules similar to  
12 the rules of section 5061(e)(3) of such Code shall  
13 apply for purposes of this subsection.

14          (8) OTHER LAWS APPLICABLE.—All provisions  
15 of law, including penalties, applicable with respect to  
16 the taxes imposed by section 5701 of such Code  
17 shall, insofar as applicable and not inconsistent with  
18 the provisions of this subsection, apply to the floor  
19 stocks taxes imposed by paragraph (1), to the same  
20 extent as if such taxes were imposed by such section  
21 5701. The Secretary may treat any person who bore  
22 the ultimate burden of the tax imposed by para-  
23 graph (1) as the person to whom a credit or refund  
24 under such provisions may be allowed or made.

1 **SEC. 5. CONFORMING AMENDMENTS.**

2 (a) ERISA.—Section 701(c)(1) of the Employee Re-  
3 tirement Income Security Act of 1974 (as added by section  
4 101(a) of the Health Insurance Portability and Account-  
5 ability Act of 1996) is amended by adding at the end the  
6 following:

7 “(K) A qualifying children’s policy under  
8 the Child Health Insurance and Lower Deficit  
9 Act.”.

10 (b) PUBLIC HEALTH SERVICE ACT.—

11 (1) Section 2701(c)(1) of the Public Health  
12 Service Act (as added by section 102(a) of the  
13 Health Insurance Portability and Accountability Act  
14 of 1996) is amended by adding at the end the fol-  
15 lowing:

16 “(K) A qualifying children’s policy under  
17 the Child Health Insurance and Lower Deficit  
18 Act.”.

19 (2) Section 2761(b)(1)(A) of the Public Health  
20 Service Act (as added by section 102(a) of the  
21 Health Insurance Portability and Accountability Act  
22 of 1996) is amended—

23 (A) by striking “or church plan” and in-  
24 serting “church plan”; and

25 (B) by inserting before the semicolon the  
26 following: “, qualifying children’s policy, or

1           qualifying children's direct service benefit op-  
2           tion".

3 **SEC. 6. EFFECTIVE DATE.**

4           Except as provided in section 4(g), this Act shall be-  
5 come effective on the date of enactment of this Act, except  
6 that funds to carry out programs under the amendments  
7 made by this Act shall not be available prior to January  
8 1, 1998.

○