Issue Brief

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CBO and JCT Issue Report Estimating Effects of Cost-Sharing Reductions

The Congressional Budget Office and the staff of the Joint Committee on Taxation have estimated the effects on the federal budget, health insurance coverage, market stability and premiums if payments for cost-sharing reductions, currently required by the Affordable Care Act would end after December 2017. The report is available on the CBO website www.cbo.gov.

The report is only 14 pages long. Most of the material that follows is taken directly from the CBO summary of their findings.

The ACA requires insurers to offer plans with reduced deductibles, copayments, and other means of cost sharing to people who purchase plans through the marketplaces established by the ACA. The size of those reductions depends on person's income. In turn, insurers receive federal payments arranged by the Secretary of Health and Human Services to cover the costs they incur because of that requirement.

The President has been arguing to stop such payments as a means of undoing, undermining and destabilizing the ACA because Congress has been unable to do so to date.

EFFECTS ON MARKET STABILITY AND PREMIUMS

CBO and JCT expect that insurers in some states would withdraw from or not enter the non-group market because of substantial uncertainty about the effects of the policy on average health care costs for people purchasing such plans. In the agencies' estimation, under the policy, about 5 percent of people live in areas that would have no insurers in the non-group market in 2018.

However, CBO and JCT expect that more insurers would participate by 2020, so people in almost all areas would be able to buy non-group insurance.

Because insurers would still be required to bear the costs of Cost Sharing Reductions even without payments from the government, participating insurers would raise premiums of "silver" plans to cover the costs.

In order to qualify for CSRs, most enrollees must purchase a silver plan through the non-group insurance marketplace in their area, generally have income between 100 percent and 250 percent of the federal poverty level, receive premium tax credits toward the

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silver plan, and not be eligible for other types of coverage, such as employment-based coverage or Medicaid.

CBO and JCT's projections for single policyholders, gross premiums (that is, before premium tax credits are accounted for) for silver plans offered through the marketplaces would, on average, rise by about 20 percent in 2018 relative to the amount in CBO's March 2016 baseline and rise slightly more in later years. Such premiums for other plans would rise a few percent during the next two years, on average, above the increases already projected in the baseline in response to uncertainty among states and insurers about how to respond under the policy. In later years, the agencies anticipate, premiums for other plans would not generally rise above baseline projections because CSRs are not available for those plans.

When premiums for silver plans increased under the policy, tax credit amounts per person for purchasing insurance in the non-group market would increase because the credits are directly linked to those premiums. According to CBO and JCT's projections, many people eligible for the credits with income between 100 percent and 200 percent of the FPL — who, under the baseline, receive most of the cost-sharing reductions paid — would use their increased tax credits to purchase the same silver plans with low cost sharing that they would purchase under the baseline, and they would pay net premiums (with the tax credits factored in) that were similar to what they would pay if the CSR payments were continued. Alternatively, they could buy insurance that covered less of their health care expenses, and in many of those cases, the tax credits would cover the premiums entirely. Because CBO and JCT anticipate that most insurance commissioners would eventually permit insurers to substantially increase the gross premiums for silver plans in the marketplaces and not to do so for other plans, almost all people at other income levels would then buy other plans. (Under the baseline, some of those people would buy silver plans, and some would buy other plans.)

EFFECTS ON THE FEDERAL BUDGET AND HEALTH INSURANCE COVERAGE

Implementing the policy would increase the federal deficit, on net, by $194 billion from 2017 through 2026, CBO and JCT estimate. Total federal subsidies for health insurance in the non-group market — in particular, the sum of the premium tax credits and the CSR payments — would increase for two reasons: The average amount of subsidy per person would be greater, and more people would receive subsidies in most years.

Because the tax credits would increase when premiums for silver plans rose, the agencies estimate that the average subsidy per person receiving premium tax credits to purchase non-group health insurance would increase. Increases in those tax credits for people with income between 100 percent and 200 percent of the FPL would roughly offset the reductions in CSR payments. However, increases in premium tax credits for those with income between 200 percent and 400 percent of the FPL would substantially exceed the small reductions in CSR payments for this group.

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OVERALL EFFECTS

As a result of the increase in total subsidies under the policy, CBO and JCT project these outcomes, compared with what would occur if the CSR payments were continued:

- The fraction of people living in areas with no insurers offering non-group plans would be greater during the next two years and about the same starting in 2020;
- Gross premiums for silver plans offered through the marketplaces would be 20 percent higher in 2018 and 25 percent higher by 2020 — boosting the amount of premium tax credits according to the statutory formula;
- Most people would pay net premiums (after accounting for premium tax credits) for non-group insurance throughout the next decade that were similar to or less than what they would pay otherwise — although the share of people facing slight increases would be higher during the next two years;
- Federal deficits would increase by $6 billion in 2018, $21 billion in 2020, and $26 billion in 2026; and
- The number of people uninsured would be slightly higher in 2018 but slightly lower starting in 2020.

Those effects are uncertain and would depend on how the policy was implemented. For this analysis, the agencies have measured the budgetary effects relative to CBO's March 2016 baseline to produce estimates most comparable to those published earlier this year for legislation related to the budget reconciliation process for 2017. In an analysis using a preliminary version of updated projections of spending to subsidize health insurance purchased through the marketplaces that will be published soon, CBO and JCT find most of the results to be similar to those discussed here. The main exception is this: Premiums under the policy would rise by a smaller amount in 2018 — as the updated projections incorporate some increase in premiums next year as a result of current uncertainty about future CSR payments. Specifically, the agencies now expect that some insurers will assume that CSR payments will not be made in full during 2018 (as some insurers have indicated in preliminary filings), will incorporate the associated costs into their premiums for that year, and will, if CSR payments continue to be made, make adjustments in 2019 to account for them. Those expectations will be reflected in the CBO updated projections but were not included in the March 2016 baseline.

Analysis provided for MHA by Larry Goldberg, Goldberg Consulting

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