Issue Brief

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CBO Scores Republican's American Health Care Act; Reports 24 Million Could Lose Coverage by 2026

The Congressional Budget Office and The Joint Committee on Taxation have produced an estimate of the budgetary effects of the pending Republican House bill — the American Health Care Act. The material is available at: https://www.cbo.gov/.

COMMENT

Both the House Republicans and the new administration have been dreading the release of the CBO scoring of the AHCA. They are concerned that the CBO findings will greatly dampen their chances of enacting the legislation. To temper the CBO findings, those leading the charge to enact are focusing on the accuracy of the CBO report and previous CBO reports.

EFFECTS ON THE FEDERAL BUDGET

The CBO and JCT estimate that the legislation, if enacted, would reduce federal deficits by some $337 billion over the 2017-2026 period. Outlays would be reduced by approximately $1.2 trillion and revenues would be reduced by approximately $0.9 trillion.

The largest savings would come from reductions in outlays for Medicaid and from the elimination of the Affordable Care Act's subsidies for non-group health insurance.

The largest costs would come from repealing many of the changes the ACA made to the Internal Revenue Code — including an increase in the hospital insurance payroll tax rate for high-income taxpayers, a surtax on those taxpayers' net investment income, and annual fees imposed on health insurers — and from the establishment of a new tax credit for health insurance.

EFFECTS ON HEALTH INSURANCE COVERAGE

CBO and JCT estimate that in 2018 14 million more people would be uninsured under the proposed legislation than under current law. Most of that increase would stem from repealing the penalties associated with the individual mandate.

Additional changes to subsidies for insurance purchased in the non-group market and to the Medicaid program, would increase in the number of uninsured people relative to the number under current law to 21 million in 2020 and to 24 million in 2026. "The reductions in insurance coverage between 2018 and 2026 would stem in large part from changes in Medicaid enrollment — because some states would discontinue their expansion of eligibility, some states

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that would have expanded eligibility in the future would choose not to do so, and per-enrollee spending in the program would be capped. In 2026, an estimated 52 million people would be uninsured, compared with 28 million who would lack insurance that year under current law."

STABILITY OF THE HEALTH INSURANCE MARKET

In CBO and JCT's assessment the non-group market would probably be stable in most areas under either current law or the legislation.

EFFECTS ON PREMIUMS

Average premiums would increase prior to 2020 and would decrease starting in 2020. CBO and JCT estimate that changes in premiums relative to those under current law would differ significantly for people of different ages because of a change in age-rating rules.

MAJOR PROVISIONS OF THE LEGISLATION

CBO and JCT note that the budgetary effects related to health insurance coverage would stem primarily from the following provisions:

- Eliminating penalties associated with the requirements that most people obtain health insurance coverage and that large employers offer their employees coverage that meets specified standards.
- Reducing the federal matching rate for adults made eligible for Medicaid by the ACA to equal the rate for other enrollees in the state, beginning in 2020.
- Capping the growth in per-enrollee payments for most Medicaid beneficiaries to no more than the medical care component of the consumer price index starting in 2020.
- Repealing current-law subsidies for health insurance coverage obtained through the non-group market — which include refundable tax credits for premium assistance and subsidies to reduce cost-sharing payments.
- Creating a new refundable tax credit for health insurance coverage purchased through the non-group market beginning in 2020.
- Appropriating funding for grants to states through the Patient and State Stability Fund beginning in 2018.
- Relaxing the current-law requirement that prevents insurers from charging older people premiums that are more than three times larger than the premiums charged to younger people in the non-group and small-group markets. Unless a state sets a different limit, the legislation would allow insurers to charge older people five times more than younger ones, beginning in 2018.
- Removing the requirement, beginning in 2020, that insurers who offer plans in the non-group and small-group markets generally must offer plans that cover at least 60 percent of the cost of covered benefits.
- Requiring insurers to apply a 30 percent surcharge on premiums for people who enroll in insurance in the non-group or small-group markets if they have been uninsured for more than 63 days within the past year.

Other parts of the legislation would repeal or delay many of the changes the ACA made to the Internal Revenue Code that were not directly related to the law's insurance coverage provisions. Those with the largest budgetary effects include:

- Repealing the surtax on certain high-income taxpayers' net investment income;

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- Repealing the increase in the Hospital Insurance payroll tax rate for certain high-income taxpayers;
- Repealing the annual fee on health insurance providers; and
- Delaying when the excise tax imposed on some health insurance plans with high premiums would go into effect.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO and JCT estimate that, on net, enacting the legislation would decrease federal deficits by $337 billion over the 2017-2026 period. That change would result from a $1.2 trillion decrease in direct spending, partially offset by an $883 billion reduction in revenues.

The Budget Reconciliation Recommendations of the House Committees on Ways and Means and Energy and Commerce, March 9, 2017:

Summary of the Direct Spending and Revenue Effects of the AHCA (billions of dollars, by fiscal year)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
Changes in Direct Spending [a]												
Coverage Provisions Estimated Outlays	-6.7	-27.2	-25.7	-91.7	-136.9	-158.0	-174.3	-187.0	-200.0	-211.7	-288.1	-1,219.1
Changes in Revenues [b]												
Total Changes in Revenues	-5.9	-51.2	-58.6	-83.1	-98.7	-106.6	-114.9	-123.5	-120.6	-119.4	-297.6	-882.8
Increase or Decrease (-) in the Deficit From Changes In Direct Spending Or Revenues												
Net Increase or Decrease (-) in the Deficit	-0.8	24.0	33.0	-8.6	-38.2	-51.3	-59.4	-63.5	-79.4	-92.4	9.4	-336.5

a. For outlays, a positive number indicates an increase (adding to the deficit) and a negative number indicates a decrease (reducing the deficit).
b. For revenues, a negative number indicates a decrease (adding to the deficit).

Estimates of the Direct Spending and Revenue Effects of the AHCA (billions of dollars, by fiscal year)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
Changes in Direct Spending [a]												
Coverage Provisions Estimated Outlays	-6.6	-27.5	-25.6	-92.5	-138.6	-158.5	-175.2	-188.5	-201.3	-212.0	-290.7	-1,226.2
Prevention and Public Health Fund	0.0	-0.1	-0.4	-0.7	-0.9	-1.0	-1.1	-1.3	-1.4	-1.7	-2.2	-8.8

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Estimates of the Direct Spending and Revenue Effects of the AHCA (billions of dollars, by fiscal year)												
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
Community Health Center Program	0.1	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Provision Affecting Planned Parenthood	-0.2	*	*	*	*	*	*	*	*	*	-0.2	-0.2
Repeal of Medicaid Provisions [b]	0.0	0.0	0.0	-0.8	-1.3	-1.6	-1.9	-2.0	-2.1	-2.2	-2.1	-11.7
Repeal of Medicaid Expansion	*included in estimate of coverage provisions*											
Repeal of Reductions to Allotments for DSH	0.0	0.6	1.0	1.9	2.8	3.7	4.7	5.7	5.7	5.1	6.3	31.2
Reductions to States' Medicaid Costs [b]	0.0	-0.3	-0.6	-0.8	-0.8	-0.8	-0.9	-0.9	-0.9	-1.0	-2.5	-7.1
Safety Net Funding for Non Expansion States	0.0	1.8	2.0	2.0	2.0	0.2	0.0	0.0	0.0	0.0	7.8	8.0
Providing Incentives for Increased Frequency of Eligibility Redeterminations	*included in estimate of coverage provisions*											
Per Capita Allotment for Medical Assistance	*included in estimate of coverage provisions*											
Repeal of Cost-Sharing Subsidy	*included in estimate of coverage provisions*											
Patient and State Stability Fund	*included in estimate of coverage provisions*											
Continuous Health Insurance Coverage Insurance	*included in estimate of coverage provisions*											
Increasing Levels of Coverage Options	*included in estimate of coverage provisions*											
Change in Permissible Age Variation	*included in estimate of coverage provisions*											
Recapture Excess Advance Payments on Premiums	0.0	-2.0	-2.2	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	-4.9	-4.9
Additional Modifications to Premium Tax Credit	*included in estimate of coverage provisions*											
Premium Tax Credit	*included in estimate of coverage provisions*											
Small Business Tax Credit	*included in estimate of coverage provisions*											
Individual Mandate	*included in estimate of coverage provisions*											
Employer Mandate	*included in estimate of coverage provisions*											

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Estimates of the Direct Spending and Revenue Effects of the AHCA (billions of dollars, by fiscal year)												
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
Total Changes in Direct Spending	-6.7	-27.2	-25.7	-91.7	136.9	-158.0	-174.3	-187.0	-200.0	-211.7	-288.1	-1,219.1
Changes in Revenues [c]												
Coverage Provisions Estimated Revenues	-3.8	-13.7	-16.8	-25.5	-33.6	-36.4	-38.9	-40.4	-41.0	-40.7	-93.5	-290.9
Recapture Excess Advance Payments of Premium Tax Credits	0.0	0.6	0.7	0.5	0.0	0.0	0.0	0.0	0.0	0.0	1.8	1.8
Additional Modifications to Premium Tax Credit	*included in estimate of coverage provisions*											
Premium Tax Credit	*included in estimate of coverage provisions*											
Small Business Tax Credit	*included in estimate of coverage provisions*											
Individual Mandate	*included in estimate of coverage provisions*											
Employee Mandate	*included in estimate of coverage provisions*											
Repeal of Tax on Employee Health Benefit Insurance Premiums and Health Plan Benefits [d]	0.0	0.0	0.0	-3.4	-6.9	-8.7	-10.7	-13.6	-5.5	0.0	-10.3	-48.7
Repeal of Tax on Over the Counter Medications	0.0	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-2.1	-5.5
Repeal of Increase of Tax on Health Savings Accounts	0.0	*	*	*	*	*	*	*	*	*	*	-0.1
Repeal of Limitations on Contributions to Flexible Spending Accounts	0.0	-0.3	-1.2	-1.6	-1.7	-1.8	-2.2	-2.6	-3.3	-4.1	-4.7	-18.6
Repeal Tax on Prescription Medications	0.0	-3.1	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-11.2	-24.8
Repeal of Medical Device Tax	0.0	-1.4	-1.9	-2.0	-2.1	-2.2	-2.3	-2.4	-2.6	-2.7	-7.4	-19.6
Repeal of Health Ins Tax	0.0	-12.8	-13.5	-14.3	-15.1	-15.9	-16.8	-17.8	-18.7	-19.7	-55.7	-144.7
Repeal of Elimination Deduction for Expenses Allocable to Medicare Part D subsidy	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.6	-1.7
Repeal of Increase in Income Threshold for Determining Medical Care Deduction	-0.2	-2.0	-3.2	-3.4	-3.6	-3.9	-4.2	-4.5	-4.8	-5.1	-12.4	-34.9
Repeal of Medicare Tax Increase	-0.4	-6.5	-10.1	-11.4	-12.3	-13.2	14.1	-15.2	-16.5	-17.6	-40.8	-117.3

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Estimates of the Direct Spending and Revenue Effects of the AHCA (billions of dollars, by fiscal year)												
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
Refundable Tax Credit for Health Insurance	*included in estimate of coverage provisions*											
Maximum Contribution Limit to Health Saving Accounts	0.0	-1.0	-1.6	-1.7	-1.9	-2.1	-2.3	-2.5	-2.7	-2.9	-6.2	-18.6
Allow Both Spouses to Make Catch Up Contributions to the Same Health Savings Account	0.0	*	*	*	*	*	*	*	-0.1	-0.1	-0.1	-0.4
Special Rule for Certain Medical Expenses Incurred Before Establishment of Health Saving	0.0	*	*	*	*	*	*	*	*	*	-0.1	-0.2
Repeal of Tanning Tax	0.0	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.6
Repeal of Net Investment Tax	-1.5	-10.5	-7.5	-16.7	-17.8	-18.7	-19.7	-20.7	-21.7	-22.7	-54.1	-157.6
Remuneration	0.0	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Total Changes in Revenue	-5.9	-51.2	-58.6	-83.1	-98.7	-106.6	-114.9	-123.5	-120.6	-119.4	-297.6	-882.8
Increase or Decrease (-) in the Deficit From Changes in Direct Spending or Revenues												
Net Increase or Decrease (-) in the Deficit	-0.8	24.0	33.0	-8.6	-38.2	-51.3	-59.4	-63.5	-79.4	-92.4	9.4	-336.5

a. For outlays, a positive number indicates an increase (adding to the deficit) and a negative number indicates a decrease (reducing the deficit).
b. Estimate interacts with the provision related to the Per Capita Allotment for Medical Assistance.
c. For revenues, a positive number indicates an increase (reducing the deficit) and a negative number indicates a decrease (adding to the deficit).
d. This estimate does not include effects of interactions with other subsidies; those effects are included in estimates of other relevant provisions.

The $935 billion in estimated deficit reduction over the 2017-2026 period that would stem from the insurance coverage provisions includes the following amounts (shown in the following table):

- A reduction of $880 billion in federal outlays for Medicaid;
- Savings of $673 billion, mostly stemming from the elimination of the ACA's subsidies for non-group health insurance—which include refundable tax credits for premium assistance and subsidies to reduce cost-sharing payments—in 2020;
- Savings of $70 billion mostly associated with shifts in the mix of taxable and nontaxable compensation resulting from net decreases in the number of people estimated to enroll in employment-based health insurance coverage; and
- Savings of $6 billion from the repeal of a tax credit for certain small employers that provide health insurance to their employees.

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Decreases would be partially offset by:

- A cost of $361 billion for the new tax credit for health insurance established by the legislation in 2020;
- A reduction in revenues of $210 billion from eliminating the penalties paid by uninsured people and employers;
- An increase in spending of $80 billion for the new Patient and State Stability Fund grant program; and
- A net increase in spending of $43 billion under the Medicare program stemming from changes in payments to hospitals that serve a disproportionate share of low-income patients.

Net Budgetary Effects of the Insurance Coverage Provisions of the AHCA (billions of dollars, by fiscal year)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026
Medicaid Outlays	-3.0	-18.0	-26.0	-68.0	-94.0	-111.0	-124.0	-135.0	-146.0	-155.0	-880.0
Subsidies for Coverage through Marketplaces and Related Spending and Revenues [a, b]	-5.5	-11.0	-16.0	-62.0	-87.0	-91.0	-95.0	-99.0	-102.0	-106	-673.0
Small Employer Tax Credits [b, c]	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-6.0
Tax Credits for non-group Insurance [b, d]	0.0	0.0	0.0	30.0	44.0	47.0	52.0	58.0	63.0	68.0	361.0
Penalty Payments by Employers [c]	2.0	16.0	20.0	15.0	16.0	18.0	19.0	20.0	22.0	23.0	171.0
Penalty Payments by Uninsured People	3.0	3.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0	5.0	38.0
Patient and State Stability Fund Grants	0.0	0.0	12.0	15.0	10.0	9.0	9.0	8.0	8.0	8.0	80.0
Medicare [e]	0.0	1.0	3.0	4.0	6.0	6.0	6.0	6.0	6.0	6.0	43.0
Other Effects on Revenues and Outlays [d, f]	-1.0	-5.0	-5.0	-4.0	-4.0	-4.0	-6.0	-10.0	-14.0	-18.0	-70.0
Total Effect on the Deficit	-3.0	-14.0	-9.0	-67.0	-105.0	-122.0	-136.0	-148.0	-160.0	-171.0	-935.0

*Numbers may not add up to totals because of rounding; AHCA = American Health Care Act; * = between -$500 million and zero.*

a. Related spending and revenues include spending for the Basic Health Program and net spending and revenues for risk adjustment.
b. Includes effects on outlays and on revenues.
c. Effects on the deficit include the associated effects of changes in taxable compensation on revenues.
d. Includes costs for a new tax credit for continuation of coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).
e. Effects arise mostly from changes in Disproportionate Share Hospital payments.
f. Consists mainly of the effects of changes in taxable compensation on revenues. CBO also estimates that outlays for Social Security benefits would decrease by about $3 billion over the 2017-2026 period.

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MAJOR CHANGES TO MEDICAID

CBO estimates that several major provisions affecting Medicaid would decrease direct spending by $880 billion over the 2017-2026 period. That reduction would stem primarily from lower enrollment throughout the period, culminating in 14 million fewer Medicaid enrollees by 2026, a reduction of about 17 percent relative to the number under current law. Some of that decline would be among people who are currently eligible for Medicaid benefits, and some would be among people who CBO projects would be made eligible as a result of state actions in the future under current law (that is, from additional states adopting the optional expansion of eligibility authorized by the ACA). Some decline in spending and enrollment would begin immediately, but most of the changes would begin in 2020, when the legislation would terminate the enhanced federal matching rate for new enrollees under the ACA's expansion of Medicaid and would place a per capita-based cap on the federal government's payments to states for medical assistance provided through Medicaid. By 2026, Medicaid spending would be about 25 percent less than what CBO projects under current law.

REPEAL OF REDUCTIONS TO ALLOTMENTS FOR DISPROPORTIONATE SHARE HOSPITALS

Under current law, Medicaid allotments to states for payments to hospitals that treat a disproportionate share of uninsured and Medicaid patients are to be cut significantly in each year from 2018 to 2025. The cuts are currently scheduled to be $2 billion in 2018 and to increase each year until they reach $8 billion in 2024 and 2025. The legislation would eliminate those cuts for states that have not expanded Medicaid under the ACA starting in 2018 and for the remaining states starting in 2020, boosting outlays by $31 billion over the next 10 years.

FINAL COMMENT

The media are all over this issue and are focusing not only the cuts, but also on The President's campaign promise not to impact Medicare, Medicaid and Social Security. Republicans are also expressing increasing concerns over the AHCA. Bottom line, enactment is growing much more uncertain.

Analysis provided for MHA by Larry Goldberg, Goldberg Consulting