

## Updated Estimates of the Insurance Coverage Provisions of the Affordable Care Act

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CBO's *The Budget and Economic Outlook: 2014 to 2024* released a few weeks ago contained the agency's updated estimates of the effects of the insurance coverage provisions of the Affordable Care Act (ACA). This blog post describes those revised projections of the sources of people's insurance coverage and the net budgetary impact of those provisions, as detailed in **Appendix B** of the report.

The key elements of the insurance coverage provisions of the ACA that are encompassed by the estimates discussed here include the following:

- Many individuals and families will be able to purchase subsidized insurance through exchanges operated either by the federal government or by a state government,

- States are permitted to significantly expand eligibility for Medicaid but may decline to do so,

- Most legal residents of the United States must either obtain health insurance or pay a penalty tax for not doing so,

- Certain employers that decline to offer minimum health insurance coverage to their employees will be assessed penalties,

- A federal excise tax will be imposed on some health insurance plans with high premiums, and

- Insurers may not deny coverage to people on the basis of their health status or charge enrollees in poor health higher insurance premiums.

The ACA also made other changes to rules governing health insurance coverage that are not listed here.

As in the past, the projections of the effects of the ACA's insurance coverage provisions on the federal budget were prepared by CBO in conjunction with staff of the Joint Committee on Taxation (JCT). The new baseline estimates rely on analyses completed by the early part of December 2013 and account for administrative actions that were taken before then. But they do not reflect CBO's updated economic projections, the most recent data on enrollment through insurance exchanges or the plans that have been offered through exchanges, and any actions that have been taken since then by federal agencies or state governments. Hence, these updates are both partial and preliminary. CBO typically revises its baseline budget projections after it obtains the data that accompany the Administration's proposed budget for the coming year; CBO and JCT will incorporate into those revised baseline projections any new information and additional data about the effects of the ACA that have become available by that time.

### **CBO and JCT Estimate That the Coverage Provisions of the ACA Will Have a Net Cost to the Federal Government of \$1.5 Trillion Over the 2015–2024 Period**

In the current interim projections, CBO and JCT estimate that the ACA's coverage provisions will result in a net cost to the federal government of \$41 billion in 2014 and \$1,487 billion over the 2015–2024 period. (All of the dollar amounts discussed here are for federal fiscal years, which run from October 1 through September 30.) Compared with last year's projections, which spanned the 2014–2023 period, the new estimate represents a downward revision of \$9 billion in the net costs of those provisions over that 10-year period. (That revision is discussed in more detail in the last section.)

The estimated net costs in 2014 stem almost entirely from spending for subsidies that will be provided through exchanges and from an increase in spending for Medicaid. For the 2015–2024 period, the projected net costs consist of the following:

**Gross costs of \$2,004 billion** for Medicaid, the Children's Health Insurance Program (CHIP), subsidies and related spending for insurance obtained through exchanges, and tax credits for small employers; and

**Receipts of \$517 billion** from penalties on certain uninsured people and certain employers, an excise tax on high-premium insurance plans, and other budgetary effects—mostly increases in tax revenues.

The annual net costs are projected to rise noticeably over the next few years—to \$151 billion in 2018—and then grow by more modest amounts in the following several years, reaching \$173 billion in 2024.

All told, CBO and JCT now anticipate that, in each year during the period from 2017 through 2024, as a result of the ACA:

About 24 million or 25 million people will obtain health insurance each year through exchanges;

About 12 million or 13 million people will be added to the Medicaid and CHIP rolls;

About 6 million or 7 million fewer people will obtain insurance through their employer;

About 5 million fewer people will have nongroup or other coverage; and

About 25 million fewer people will be uninsured.

Those estimates address only the insurance coverage provisions of the ACA; they do not constitute all of the act's budgetary effects. Many other provisions, on net, are projected to reduce budget deficits.

Considering all of the coverage provisions and the other provisions together, CBO and JCT estimated in July 2012 (the most recent comprehensive estimates) that the total effect of the ACA would be to reduce federal deficits. (See *Letter to the Honorable John Boehner providing an estimate for H.R. 6079, the Repeal of Obamacare Act.*)

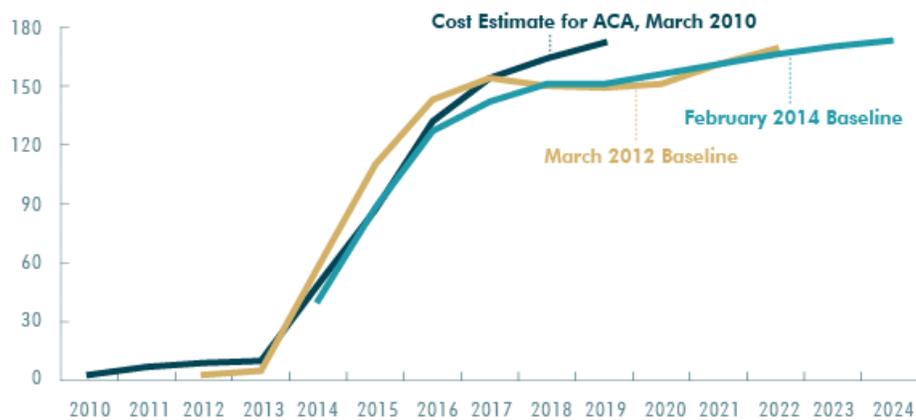
#### **The Estimated Budgetary Effects of the ACA's Coverage Provisions Have Changed Little on a Year-by-Year Basis Since March 2010**

As time passes, projected costs over the subsequent 10 years have risen, because the time period spanned by the estimates has changed: Each time a year goes by, a less expensive early year is replaced by a more expensive later year in the 10-year period covered by the estimates.

But when those estimates are compared on a year-by-year basis, CBO and JCT's estimate of the net budgetary impact of the ACA's insurance coverage provisions has changed little since the legislation was being considered in March 2010. At that time, CBO and JCT projected that the provisions of the ACA related to health insurance coverage would cost the federal government \$759 billion during fiscal years 2014 through 2019 (which was the last year in the 10-year budget window being used at that time). The newest projections indicate that those provisions will cost \$701 billion over that same period. Intervening projections (March 2012 is shown in the figure below) of the cost of the ACA's coverage provisions for those years have all been close to those figures on a year-by-year basis. (A **blog post** from last May contains a figure comparing all of our projections through CBO's May 2013 baseline.)

## Comparison of CBO's Estimates of the Net Budgetary Impact of the ACA's Coverage Provisions

Billions of Dollars, by Fiscal Year



CONGRESSIONAL BUDGET OFFICE

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### The Estimated Budgetary Effects of the ACA's Coverage Provisions Have Declined Slightly Since May 2013

The current projections do not differ substantially from the most recent previous ones, which were released in May 2013. In all, the revisions incorporated in the current baseline decrease by \$9 billion the projected cost of the ACA's insurance coverage provisions over the 2014–2023 period (the period covered by the previous baseline), from \$1,363 billion to \$1,354 billion (see the **table** at the bottom of this post). Nearly all of the change is for the 2014–2017 period.

Relative to the May 2013 projections, CBO and JCT now estimate that, in 2014:

- About 1 million fewer people will obtain coverage through exchanges,
- About 1 million fewer people will enroll in Medicaid and CHIP as a result of the ACA, and
- About 1 million more people will be uninsured.

Those changes in enrollment primarily reflect the significant technical problems that have been encountered in the initial phases of implementing the ACA. Also, estimated premiums for 2014 have been reduced on the basis of a preliminary analysis of premiums for plans offered through exchanges. The updated estimates do not include changes to premiums for future years; the limited information available in early December regarding enrollment and premiums for insurance coverage in exchanges in 2014 did not provide a sound basis for changing estimates of enrollment or premiums for future years.

Several factors explain the various changes in the budgetary flows stemming from the ACA's coverage provisions, including lower estimates for enrollment and exchange premiums, new estimates for the effects of risk corridors (a system of profit and loss sharing to limit the risks that insurers will face during their first few years of operating under the ACA), and the effects of recent administrative actions:

Downward revisions to the estimates of enrollment and premiums reduced the cost projected for the ACA's insurance coverage provisions—including spending for Medicaid, CHIP, and exchange subsidies as well as effects on taxable compensation—by roughly \$11 billion, on net, for fiscal years 2014 and 2015.

CBO and JCT also incorporated into the updated baseline projections some new estimates of payments and collections for the risk corridor program, which had previously been projected to have no net budgetary effect; collections are now projected to exceed payments by \$8 billion for the 2015–2017 period.

The updated estimates include the budgetary effects of two administrative actions, which added, on net, \$12 billion to projected deficits for the 2014–2016 period.

Those three sets of changes, together with a shift of roughly \$1 billion in spending from “exchange subsidies and related spending” to other parts of the budget, account for the \$9 billion reduction in the estimated net cost of the coverage provisions over the 2014–2023 period.

**Comparison of CBO's Current and Previous Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act**

	May 2013 Baseline	February 2014 Baseline	Difference
<b>Change in Insurance Coverage Under the ACA in 2014 (Millions of nonelderly people, by calendar year)<sup>a</sup></b>			
Insurance Exchanges	7	6	-1
Medicaid and CHIP	9	8	-1
Employment-Based Coverage <sup>b</sup>	*	*	*
Nongroup and Other Coverage <sup>c</sup>	-2	-2	*
Uninsured <sup>d</sup>	-14	-13	1
<b>Effects on the Cumulative Federal Deficit, 2014 to 2023<sup>e</sup> (Billions of dollars)</b>			
Exchange Subsidies and Related Spending <sup>f</sup>	1,075	1,058	-16
Medicaid and CHIP Outlays	710	708	-2
Small-Employer Tax Credits <sup>g</sup>	<u>14</u>	<u>14</u>	<u>**</u>
Gross Cost of Coverage Provisions	1,798	1,780	-18
Penalty Payments by Uninsured People	-45	-45	**
Penalty Payments by Employers <sup>g</sup>	-140	-130	10
Excise Tax on High-Premium Insurance Plans <sup>g</sup>	-80	-80	0
Other Effects on Revenues and Outlays <sup>h</sup>	<u>-171</u>	<u>-171</u>	<u>-1</u>
<b>Net Cost of Coverage Provisions</b>	<b>1,363</b>	<b>1,354</b>	<b>-9</b>
<b>Memorandum:</b>			
Net Collections and Payments for Risk Adjustment, Reinsurance, and Risk Corridors <sup>i</sup>	0	-8	-8

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: ACA = Affordable Care Act; CHIP = Children's Health Insurance Program; \* = between -500,000 and 500,000; \*\* = between -\$500 million and \$500 million.

- a. Figures for the nonelderly population include residents of the 50 states and the District of Columbia who are younger than 65.
- b. The change in employment-based coverage is the net result of projected increases and decreases in offers of health insurance from employers and changes in enrollment by workers and their families.
- c. The effects are almost entirely for nongroup coverage; "other" includes Medicare.
- d. The number of uninsured people includes unauthorized immigrants as well as people who are eligible for, but not enrolled in, Medicaid.
- e. Positive numbers indicate an increase in the deficit; negative numbers indicate a decrease in the deficit. They also exclude effects on the deficit of other provisions of the Affordable Care Act that are not related to insurance coverage. They also exclude federal administrative costs subject to appropriation.
- f. Includes spending for exchange grants to states and net collections and payments for risk adjustment, reinsurance, and risk corridors (see Memorandum). CBO's May 2013 baseline also included an estimated \$1 billion in spending for high-risk pools, premium review activities, and loans to consumer-operated and -oriented plans over the 2014–2023 period. A similar total is included elsewhere in CBO's February 2014 baseline.
- g. These effects on the deficit include the associated effects of changes in taxable compensation on revenues.
- h. Consists mainly of the effects of changes in taxable compensation on revenues.
- i. These effects are included in "Exchange Subsidies and Related Spending."

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