From: Jacobs, Chris (RPC)
Sent: Saturday, February 19, 2011 12:44 PM
To: Jacobs, Chris (RPC)
Subject: Update on Health Care Law Scores

As the House was finishing its work on the continuing resolution on Friday, the Congressional Budget Office released two letters related to the health care law and its repeal. Late Friday afternoon, CBO issued a letter to House Budget Committee Chairman Ryan regarding the health care law. The letter indicated that – should the "Cadillac tax" on employer-sponsored plans not be implemented as scheduled in 2018, and should half of the Medicare savings provisions be repealed or otherwise not implemented – the law will ***increase*** the deficit by up to $500 billion in its second decade (meaning repeal would ***reduce*** the deficit by a similar amount).

The Congressman's assumptions to CBO seem much more plausible than those in the law, for several reasons. First, the "Cadillac tax" isn't scheduled to begin until 2018 – one year after the end of any second Obama presidential term. That of course raises the obvious question: If President Obama and Democrats really intend to implement this new 40 percent tax on the middle class, why did they wait until *after* the current President will be out of office for it to take effect?

Second, CBO, along with many others, has shown a great amount of skepticism that the law's Medicare savings provisions can be implemented in full without severe access problems. CBO's report on the long-term budget outlook, released in June, included a section entitled "Questions About Sustainability" on page 35, which I've pasted below. CBO noted that "increases in payment rates for many providers will be held below the rate of increase in the average cost of providers' inputs" and "it is unclear whether the [Medicare provisions] can be sustained, and, if so, whether it will be accomplished through greater efficiencies in the delivery of care or will instead reduce access to care or diminish the quality of care." (CBO's analysis echoes that of the Medicare actuary, who concluded that up to 40 percent of hospitals and related providers could become unprofitable if the provisions are sustained for a long period of time, as the law envisions.) For these reasons, CBO released an alternative fiscal scenario assuming that the Medicare productivity adjustments to providers and the caps on Medicare spending enforced by the Independent Payment Advisory Board – two of the biggest savings provisions in the law's "out years" – will not be implemented after 2020. (See page 39 of the June CBO report.) So the second assumption in the Ryan letter merely echoes CBO's own position – that the Medicare provisions cannot be implemented as written over the long term.

In short, while Democrats crow about how the health care law reduces the deficit, the letter to Congressman Ryan illustrates HOW exactly the law reduces the deficit – **by placing an onerous new 40 percent tax on insurance purchased by middle-class families, and by hindering access to Medicare providers for millions of senior beneficiaries**.

Also on Friday, CBO released its full "official" score of the repeal of the health care law (H.R. 2). The broad contours of the score were widely known – CBO said the law will reduce the deficit by $210 billion over the 2012-2021 period, up from $138 billion in the 2010-2019 period

(due to the shifting of the budgetary scorekeeping window). However, there are some interesting new nuggets about the law in the score of its repeal:

- Because the CBO estimate now includes two more years of "full implementation," the gross cost of the coverage expansions skyrocketed by 48 percent – from $938 billion in last March's estimate to $1.39 trillion. Again, this $452 billion increase reflects the costs of only two more years of the coverage expansion (2020 and 2021).
- Within the coverage expansion estimates, CBO scores the Medicaid expansion as costing $674 billion (up from $434 billion), the Exchange subsidies as costing $677 billion (up from $464 billion), and the small business tax credit as costing $40 billion (unchanged).
- CBO estimates the Medicaid unfunded mandates as costing states $60 billion from 2012-2021, up from only $20 billion during the years 2010-2019. That means state unfunded mandates will total $40 billion in 2020 and 2021 – showing the HUGE jump in state obligations once the federal matching payments for the Medicaid expansion costs are reduced in 2020.
- The revenues taken in by the "Cadillac tax" on employer-sponsored plans will more than triple, from $32 billion to $111 billion. This growth reflects the fact that the Cadillac tax isn't scheduled to take effect until 2018 under the law. The Cadillac tax will generate $16 billion in revenue in 2018, but $32 billion just two years later – a doubling that demonstrates how rapidly this tax on middle class families will skyrocket in future years.
- The federal budgetary commitment to health care will rise by $464 billion during 2012-2021, up from $398 billion in 2010-2019 under the March estimate.
- Premiums will go UP under the law, and go DOWN if it is repealed – conclusions that echo the CBO's prior analysis of health insurance premiums from November 2009.

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Questions About Sustainability

One challenge that arises in projecting federal outlays for health care over the long term is that the recent legislation either left in place or put into effect a number of procedures that may be difficult to sustain over a long period. For example, the legislation did not alter the sustainable growth rate mechanism used for determining updates to Medicare's payment rates for physicians; under that mechanism, those rates are scheduled to be reduced by about 21 percent in 2010 and then decline further in subsequent years. Since that mechanism was enacted in 1997, its provisions have usually been modified to avoid scheduled reductions in payment rates, and legislation was just enacted to delay cuts in those payment rates until December 2010 (a development that is not reflected in the projections). At the same time, the legislation includes provisions that will constrain payment rates for other providers of Medicare's services. In

particular, increases in payment rates for many providers will be held below the rate of increase in the average cost of providers' inputs.

Taking all the provisions of the legislation together, CBO expects that, adjusted for inflation, Medicare spending per beneficiary will increase at an average annual rate of less than 2 percent during the next two decades—compared with a roughly 4 percent annual growth rate during the past two decades (a calculation that excludes the effect of establishing the Medicare prescription drug benefit). It is unclear whether that lower rate of growth can be sustained and, if so, whether it will be accomplished through greater efficiencies in the delivery of health care or will instead reduce access to care or diminish the quality of care (relative to the situation under prior law).

Another provision that may be difficult to sustain will slow the growth of federal subsidies for health insurance purchased through the insurance exchanges. For enrollees who receive subsidies, the amount they will have to pay depends primarily on a formula that determines what share of their income they have to contribute to enroll in a relatively low-cost plan (with the subsidy covering the difference between that contribution and the total premium for that plan). Initially, the percentages of income that enrollees must pay are indexed so that the subsidies will cover roughly the same share of the total premium over time. After 2018, however, an additional indexing factor will probably apply; if so, the shares of income that enrollees have to pay will increase more rapidly, and the shares of the premium that the subsidies cover will decline.