

# The Logic-Defying CBO Obamacare Replacement Score Breaks Its Own Rules, among Other Problems

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*Dr. Tom Price, the U.S. Secretary of Health & Human Services, has said the Congressional Budget Office's recent "score" of the Republican Obamacare replacement bill defies logic. Even worse, it defies the very rules which govern the CBO.*



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**The CBO's Analysis Is Static.** The 2016 Budget Resolution agreed to by both the House and Senate in May 2015 directed the CBO to do so-called dynamic scoring of major legislation. Dynamic scoring includes proposed laws' macroeconomic effects. It is especially important when new laws cut taxes, as the American Health Care Act would do. Old fashioned, static analysis does not result in accurate estimates.

For example, say a 10 percent tax on a base of \$100 million raises \$10 million. Cutting that tax to five percent would cut revenue by \$5 million, under static analysis. This ignores the economic growth that would occur as a result of the tax cut.

The AHCA eliminates almost all of Obamacare's taxes. Even according to the CBO's static analysis, the bill will reduce the federal deficit by \$337 billion over 10 years. This combines a spending cut of \$1.2 trillion and a cut in tax revenue of \$0.9 trillion.

This effect on the federal government disguises the reform's benefits to real people. The CBO claims it did not have enough time to prepare a dynamic analysis. Fortunately, the National Center for Policy Analysis has just done so. The NCPA's analysis concludes the AHCA would increase real Gross Domestic Product by \$426 billion, or 1.5 percent; increase private sector employment by 940,000, or 0.49 percent; and increase personal income by \$185 billion, or 0.76 percent.

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Critics of the bill focus on the increase in the number of uninsured Americans who will lose coverage under the AHCA. The media tried to instill panic by highlighting the estimate of 24 million losing coverage by 2024. This is inaccurate because only 10 million will lose actual health insurance. The other 14 million will lose access to the welfare program called Medicaid, which provides poor access to care and results in surges of visits to hospitals' emergency departments.

**The CBO Ignores Employment Growth.** The CBO's crude numbers ignore the fundamental change in how Congress will finance Medicaid. Instead of just handing money over to states according to a formula that promotes fiscal insolvency, states will receive fixed funding and be freer to innovate how they deliver health care. Medicaid reform is on a path to replicate the success of another welfare reform, passed in 1996, which put millions back to work.

The estimate of 10 million losing actual insurance is also off-base, because it includes seven million estimated to lose employer-based coverage, compared to the number under Obamacare. This is unrealistic because the AHCA will promote economic growth, while Obamacare has stifled it. The GOP reform will lead to more jobs with health benefits.

One way Obamacare stifles growth is the structure of its tax credits, which impose high marginal income tax rates at certain income levels up to 400 percent of the Federal Poverty Level. The CBO itself

estimates this will cost two million jobs in 2025. Avik Roy explains this drawback is also a feature of the AHCA's tax credits, which are adjusted for age. However, the tax credits are not income adjusted for people whose incomes are higher than the Medicaid cut-off and up to \$75,000 for an individual or \$150,000 for a family.

According to Dr. Roy's analysis, a 40-year old with an income up to about \$12,500 would be on Medicaid, which is "free." Once he earns \$12,501, he gets kicked off Medicaid and has to buy individual health insurance for just under \$2,000 annually, after receiving help from the AHCA's tax credit.

For anyone around that income level, this provides a huge disincentive to work. However, the effect does

not impact anyone already earning more than \$12,500. Nobody else earning higher incomes would suffer this disincentive under the AHCA. Under Obamacare, catastrophically high marginal income taxes attack individuals all the way up the income scale to just under \$50,000 for a single person or \$100,000 for a family of four.

**Conclusion.** For any working person who wants to be free of worrying whether working an extra shift or getting a promotion will cause a drop in her income after paying for health insurance, the GOP Obamacare replacement bill offers meaningful relief.

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*"The CBO ignores Medicaid reform, which could put millions of people back to work."*