



The Daily Dish

AHCA and Entitlement Reform

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On Monday Environmental Protection Agency (EPA) administrator Scott Pruitt announced a delay of the Obama Administration's chemical plants safety rule. The rule had been finalized in December and was expected to go into effect on March 14th but Pruitt decided to initiate a formal process to determine whether or not the rule should be repealed or changed. Should the EPA determine that the rule should be changed or repealed they will need to go back through the entire rule making process, which could take more than one year.

Last week under the Congressional Review Act (CRA) the Senate was able to disapprove four regulations that resulted in \$501 million in regulatory cost savings. According to AAF calculations, as of last week, the per capita regulatory burdens for 2017 now stands at \$428. Since January 1st the federal government has been able to cut 20.8 million paperwork burden hours due to the actions taken by the Trump Administration and the Republican controlled Congress.

Eakinomics: AHCA and Entitlement Reform

The Affordable Care Act (ACA) had many flaws, but among its most significant was its extensive use of Medicare cuts — Part A (hospitals) by \$517 billion and Part B (outpatient services) by \$247 billion for a total of \$764 billion — to pay for coverage expansions and its reliance on Medicaid as a vehicle for providing more health insurance. The result was that these two integral social safety net programs became inextricably intertwined with the political status of the ACA. And that was truly bad news, as for six long years these entitlements continued to bleed red ink as they remained in need of reform.

Congress is now considering the American Health Care Act (AHCA), colloquially known as the Obamacare repeal and replace bill. One important feature of the bill is to phase out the ACA Medicaid expansion and transform the system from an open-ended draw on the Treasury to a capped set of federal grants to states. When combined with additional flexibilities, this provides strong incentives for states to improve the value proposition in their Medicaid systems and drive the state-level delivery system toward more efficiencies.

But what about Medicare? Shouldn't the AHCA contain a symmetric set of provisions to unwind the ACA cuts? Yes.....but only if the legislation also contains provisions to reform Medicare; for example, by moving toward a capped system like premium support or by forcing traditional Medicare to bid against Medicare Advantage for enrollments. Simply undoing the cuts and pouring more money into the inefficient system doesn't solve anything. The president, however, has made a commitment to leave Medicare reform for another day and first focus on the AHCA, pro-growth tax reform, regulatory reform, and productivity-enhancing infrastructure investments.

Entitlement reform is an essential. Medicare is projected to grow at a 7.1 percent annual rate; Social Security 6.0 percent; and Medicaid 5.2 percent. These are all much faster than the projected growth of revenues (4.0 percent). The taxpayer cannot afford low-performing programs with such ever-growing price tags. Medicaid reform is a good start. Medicare awaits another day.