Insight

April 2014 Update: Budgetary and Coverage Impact of the Empowering Patients First Act (H.R. 2300)

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The *Empowering Patients First Act* (H.R. 2300) is legislation to repeal the Affordable Care Act and replace it with patient centered solutions. The proposed reform creates a defined contribution environment intended to "ensure access to health coverage for all Americans; rein in out-of-control costs; solve insurance challenges of portability and pre-existing illness; and improve the health care delivery structure,"[1] and achieves budget neutrality. We used a non-elderly, health insurance market model to estimate the budgetary and health insurance market impacts of the legislation compared to current law.

According to our analysis, H.R. 2300 would lead to smaller premium increases on average when compared to current law. The largest reductions would occur in narrow network and high PPO insurance products. The number of insured would be roughly equal to that of current law in 2016, but would be roughly 6 percent less by 2025. Over ten years, H.R. 2300 would yield a net savings of $1,704 billion.

Key Assumptions:

There are five critical elements of the proposal: (1) interstate sale of insurance; (2) promotion of Association Health Plans (AHPs) and Health Savings Accounts (HSAs); (3) income-adjusted, advanceable, and refundable health insurance premium credits; (4) a tax deduction for income spent on health insurance for households ineligible for premium credits; and (5) malpractice and provider antitrust reform. We assume each of these components is to take effect on January 1, 2016.

These characteristics enter our analysis through rules and regulations defined by the proposal and various modelling assumptions. Association Health Plans (AHP) and Individual Member Organizations (IMO) enable small business owners and individuals to pool risk in the insurance market. HSA accounts can be used for pre-tax dollar payment of medical care, as well as concierge care and health insurance premiums. Households moving from employer sponsored insurance to the individual market will not experience limitations based on pre-existing conditions. The health insurance premium credit is an income-adjusted, advanceable, and refundable tax credit, which increases with the general inflation rate. The full tax credit—$2,000 for individuals, $4,000 for joint returns, and $500 for dependents, in 2013 dollars—is available to households that purchase licensed medical coverage in the individual market and earn less than 200 percent of the federal poverty level (FPL). The subsidy decreases by 1 percent for every $1,000 earned over 200 percent of FPL, up to 300 percent of FPL. Enrollees in licensed health insurance plans but are ineligible for premium tax credits may spend pre-tax income on health insurance, up to a maximum deduction defined by the average deduction for employer sponsored insurance. Malpractice and fraud prevention are accounted for in accord with reports issued by the Congressional Budget Office and the Department of Health and Human Services, as well as relevant economic literature.

Premium Impact

As compared to estimates under current law, H.R. 2300 is projected to lower premiums in all categories of insurance except high deductible health plans in 2016. But due to slower premium growth, high deductible health plans are estimated to be 11 percent cheaper by 2025 than under current law for individual policies and 7 percent cheaper for families. By 2025, H.R. 2300 is projected to yield substantially lower premiums than current law in all insurance product categories with savings up to 22 percent for single policies and up to 18 percent in savings for family policies.

Percent Change in Annual Premiums Compared to Current Law										
Single Policy	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
High PPO	-6%	-7%	-9%	-11%	-13%	-15%	-17%	-19%	-21%	-22%
Medium PPO	-6%	-6%	-9%	-11%	-13%	-15%	-17%	-18%	-20%	-22%
Low PPO	-5%	-5%	-8%	-10%	-12%	-14%	-16%	-18%	-20%	-22%
Narrow Network	-3%	-3%	-5%	-7%	-9%	-11%	-13%	-15%	-17%	-19%
HSA/HDHP	7%	10%	7%	4%	1%	-1%	-4%	-6%	-9%	-11%
Family Policy	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
High PPO	-3%	-4%	-6%	-8%	-10%	-12%	-13%	-15%	-17%	-18%
Medium PPO	-2%	-4%	-6%	-8%	-9%	-11%	-13%	-15%	-17%	-18%
Low PPO	-2%	-3%	-5%	-7%	-9%	-11%	-13%	-15%	-16%	-18%
Narrow Network	2%	1%	-1%	-3%	-5%	-7%	-9%	-11%	-13%	-14%
HSA/HDHP	11%	11%	8%	6%	3%	1%	-1%	-3%	-5%	-7%

Insurance Coverage

While H.R. 2300 achieves a substantial increase in the insured population, it is projected to achieve smaller gains than under current law. In 2016, the estimated increase is equal to what is projected under current law, but by 2025, the projected increase is 6 percent less. The gap in coverage comes from lower participation in Medicaid and the individual market. Under H.R. 2300, employer sponsored insurance participation is estimated to be 8 percent higher than under current law by 2025.

Percent Change in Insured Compared to Current Law										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Individual	-18%	-24%	-28%	-32%	-35%	-38%	-40%	-41%	-41%	-42%
High PPO	-73%	-78%	-83%	-87%	-90%	-93%	-95%	-97%	-98%	-99%
Medium PPO	89%	61%	34%	12%	-12%	-36%	-55%	-69%	-80%	-87%
Low PPO	>1000%	>1000%	>1000%	>1000%	>1000%	>1000%	>1000%	>1000%	>1000%	>1000%
Narrow Network	-78%	-76%	-73%	-70%	-67%	-64%	-61%	-59%	-56%	-54%
HSA/HDHP	986%	944%	904%	865%	828%	791%	755%	720%	689%	659%
Employer	9%	10%	10%	11%	11%	12%	12%	12%	11%	8%
HMO	286%	278%	268%	257%	246%	235%	223%	212%	198%	183%
HRA	165%	169%	169%	168%	169%	169%	171%	172%	170%	166%
HSA/HDHP – Employer Pay	-75%	-74%	-74%	-73%	-72%	-72%	-71%	-70%	-69%	-68%
HSA/HDHP	-48%	-56%	-61%	-64%	-66%	-69%	-70%	-72%	-74%	-76%
Narrow Network	-93%	-95%	-97%	-97%	-97%	-97%	-96%	-97%	-96%	-95%
PPO High	-45%	-45%	-45%	-45%	-45%	-45%	-45%	-44%	-45%	-47%
PPO Low	146%	147%	144%	142%	138%	133%	127%	119%	108%	95%

PPO Mediur	24%	24%	24%	23%	22%	21%	20%	20%	17%	14%
Medicaid	-11%	-10%	-11%	-11%	-12%	-13%	-14%	-15%	-17%	-19%
Total Insured	0%	-1%	-1%	-2%	-2%	-3%	-3%	-3%	-4%	-6%

Impact on Federal Budget

H.R. 2300 generates substantial taxpayer savings. The proposed reform allocates more money to preventing fraud and medical malpractice reform than current law, but reduces spending through lower subsidy spending and Medicaid expenditures.

Budget Impact Under Proposed Law (billions)											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	10 Year
Projected Revenues	$23	$25	$26	$27	$28	$29	$30	$32	$33	$35	$288
Projected Expenditures	$66	$62	$59	$56	$54	$52	$52	$51	$52	$53	$558
Net Budget Effect	-$43	-$38	-$33	-$29	-$26	-$23	-$21	-$19	-$19	-$18	-$270
Budget Impact Under Current Law (billions)											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	10 Year
Projected Revenues	$57	$60	$64	$68	$73	$78	$84	$90	$96	$103	$773
Projected Expenditures	$225	$235	$246	$258	$272	$284	$296	$296	$309	$324	$2,747
Net Budget Effect	-$168	-$175	-$182	-$190	-$199	-$206	-$213	-$207	-$214	-$221	-$1,974
Net Proposed and Current Law Budget Impact	**$124**	**$137**	**$149**	**$160**	**$173**	**$183**	**$191**	**$188**	**$195**	**$203**	**$1,704**

[1] http://tomprice.house.gov/press-release/price-introduces-patient-centered-health-care-solutions