



Obamacare: Slightly Less Unaffordable than Previously Reported

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On March 9, the Congressional Budget Office (CBO) released [revisions](#) to its January 2015 budget projection; included were noticeably lower estimates for the cost of the insurance coverage provisions of the Affordable Care Act (ACA).^[1] The overall cost of the ACA is now projected to be \$1,207 billion, or 11 percent less than the January estimate. The amount of spending on subsidies is expected to decrease from \$1,058 billion to \$849 billion, which is roughly a 20 percent decrease in projected spending.

Health Insurance Premiums

The primary reason for the lower subsidy spending is that CBO projects the growth in insurance premiums will not be as high as originally expected in January. This is mostly a result of the continuing trend of slow growth in health care costs and spending. It is worth noting that CBO's estimates appear to be very sensitive to assumptions on health insurance premium growth, which is always difficult to predict accurately. While premiums are not increasing as much as previously expected, they are still rising at a significant rate. CBO now projects that premiums will continue to increase at a rate of roughly 5 percent per year over the next ten years.

The slower than expected premium growth also led CBO to lower the estimated ten-year revenue raised by the Cadillac tax by 41 percent. The Cadillac tax is an excise tax on employer-sponsored plans that exceed a threshold for high cost insurance. Employer sponsored insurance premiums are now estimated to be generally lower over the course of the analysis than previously estimated, leading far fewer individuals to be enrolled in plans that exceed the Cadillac tax threshold.

Enrollment

CBO now says that the number of people without health insurance coverage prior to the ACA was smaller than originally assumed, which means the projected gains in insurance coverage are expected to be lower—by about 2 million in 2025.

The amount of eligible and un-enrolled Medicaid and Children's Health Insurance Program (CHIP) beneficiaries was also overestimated; this fact combined with the overestimated amount of the uninsured has led to lower projected gains in the Medicaid program. This resulted in a \$73 billion (8 percent) decrease in estimates for Medicaid and CHIP spending between the January and March reports.

Employer Sponsored Insurance

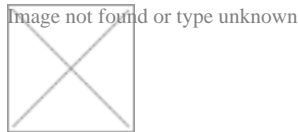
CBO previously underestimated the amount of people employed by businesses with 1,000 or more workers prior to the implementation of the ACA. Since large businesses are not as affected by the employer mandate of

the ACA as smaller businesses, they are less likely to stop offering health insurance to their employees. Therefore, the January projection of people who received employer based insurance was underestimated by about 2 million in 2025.

Budgetary Implications

Lower projections of premium growth, exchange enrollment, and Medicaid and CHIP enrollment resulted in CBO projecting spending to be \$286 billion less than originally anticipated in January. However, CBO also expects a decrease in projected revenues totaling roughly \$144 billion, consisting primarily of lower revenue raised through the Cadillac tax and more revenue lost through the employer-sponsored tax exclusion.

CBO expects to see \$142 billion decrease of total net cost of the ACA's health coverage provisions over the next ten years compared to the January baseline. These projections, however, are always uncertain especially because of the difficulties of predicting the costs of insurance premiums and explaining the reasons underlying the recent slow health care cost growth. In the March revisions, CBO itself referenced the difficulty of making accurate predictions of future insurance premiums. Slow premium growth is directly related to the slowdown in health care spending growth, which may not be as enduring as policymakers hope. As demonstrated in the chart below, health spending growth has been **cyclical** over the past few decades. This is significant because the projections are especially sensitive to premium predictions. The current projected decrease of \$200 billion in exchange subsidies depends almost exclusively on the change in insurance premium projections.



[1] <https://www.cbo.gov/sites/default/files/cbofiles/attachments/49973-UpdatedBudgetProjections.pdf>