



Insight

Regulatory Implications of the American Health Care Act

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With the formal introduction of the “American Health Care Act,” (AHCA) Congressional Republicans have made their first foray into health care reform this year. From a regulatory perspective, by eliminating many of the taxes and exchange-related components of the Affordable Care Act (ACA), the AHCA could generate significant regulatory savings. According to the American Action Forum (AAF), the Republican plan could affect \$9.8 billion in regulatory burdens and more than 72 million paperwork burden hours. For perspective, this is [roughly 41 percent](#) of the ACA’s reporting and recordkeeping burden.

The figures below are based on the section-by-section analysis of the AHCA. Since the reform proposal primarily addresses cost-sharing, Medicaid expansion, age bands, and tax changes, it is limited to the 13 legacy rules from the ACA. They are listed below, starting with the most expensive, and progressing to those that impose the most paperwork.

<u>Regulation</u>	<u>Total Cost (in millions)</u>	<u>Paperwork Hours</u>
Medicaid, CHIP, and Exchanges	\$5.2 billion	12,845,827
Establishment of Exchanges	\$3.4 billion	1,143,288
Medicaid Eligibility Changes	\$961 million	21,279,202
Rate Review	\$86.5 million	84,313
Notice of Benefit and Payment	\$61.6	234,102
Essential Coverage Provisions	\$2 million	3,223,255
Net Investment Income Tax		24,067,000
Individual Mandate Penalty		7,500,000
Additional Medicare Tax		1,900,000

Premium Tax Credit		250,000
Indoor Tanning Tax		10,000
Fees on Self-Insured Plans		830
Health Insurance Providers Fee		400
<u>Totals</u>	<u>\$9.8 billion</u>	<u>72.5 million hours</u>

Due to its structure as a reconciliation bill, AHCA wouldn't necessarily repeal all of the rules listed above, but it would make significant changes to these existing measures. In addition, there are two important caveats to the total cost figure. First, it represents a net present value estimate of costs at the time of promulgation. Since some of these rules are from 2010, an annual cost figure is probably more appropriate. According to AAF data, the ongoing costs of the rules in this sample are \$2.3 billion. The second caveat is unquantified paperwork costs. There is little doubt that imposing millions of hours of paperwork on businesses or individuals will incur monetizable costs. However, some regulators frequently ignore this task. For the rules above, there are 33 million in unquantified hourly burdens. Using a central rate of **\$33.26 per hour** (the average wage of a federal compliance officer) results in an additional \$1.1 billion in potential regulatory savings. Thus, total annual savings could eclipse \$3.4 billion from full repeal of these regulations.

By annual cost, the biggest rules addressed by the AHCA are the cost sharing and Medicaid rules ([Medicaid, CHIP, and Exchanges](#)), potential savings from the [Net Investment Income Tax](#) and the exchange rules ([Establishment of Exchanges](#)). When they were originally finalized, they consumed nearly 400 pages of regulatory text, imposing an estimated \$2.8 billion in annual costs and more than 38 million paperwork hours. All aspects of these rules will not disappear immediately under AHCA, but the proposal will make significant changes to these measures, including outright repeal for the tax provisions.

Benefits

For the sample here, regulators did not monetize the possible benefits of implementing the rules. However, fundamental health care reform could generate savings to consumers. Ultimately, the cost of regulation, whether it's \$2.3 billion in annual savings or \$3.4 billion, gets passed onto consumers. Sometimes through reduced profits leading to stock market declines or through higher health care prices in the form of premiums. Indeed, as AAF has [chronicled in the past](#), regulators routinely admit that new regulation can lead to higher premiums. ACA regulators conceded average premiums could increase by \$108 annually or roughly 4.2 percent from just three regulations that quantified price increases.

The overriding goal of the AHCA will be to simultaneously reduce federal outlays and taxes, increase patient choice, and reduce the cost of health care. Full repeal of the regulations listed here will significantly reduce regulatory burdens and taxes. Whether it addresses the other goals of health care reform will be determined by the Congressional Budget Office (CBO) and perhaps amendments to the legislation.

Conclusion

The AHCA will suffer its share of criticism and praise as it moves through the legislative process. Secretary Tom Price has stated this is merely round one in the effort of reform. The next two phases will involve broader regulatory patches and targeted legislation. Initially, from a regulatory perspective, the first draft has the

potential to eliminate \$3.4 billion in costs and create more than 72 million hours of paperwork savings. This could generate tangible benefits to insurers, businesses, and ultimately, patients. Consider a law that imposed \$53 billion in costs and 176 million paperwork burden hours. Even a 20 percent to 30 percent cut could create tremendous regulatory cost reductions.