

AMERICAN ACTION FORUM

To: Interested Parties
From: Douglas Holtz-Eakin, Stephen Parente and Michael Ramlet
Date: Tuesday, July 24, 2012
Re: Congressional Budget Office Revision to the Affordable Care Act Baseline

Executive Summary

The CBO will release its projection of the ACA budget baseline today in the aftermath of the Supreme Court decisions. The new baseline is unlikely to be dramatically different from prior budgetary outlooks because CBO doesn't yet have all the information needed to resolve the uncertainty.

However, based on information already available to CBO and others, Forum modeling found that the cost of the ACA could rise between \$72 to \$80 billion between 2014 and 2021 if the six already publicly announced states opt out of the Medicaid expansions. Alternatively, the maximum potential federal budgetary exposure – in the unlikely scenario all 50 states opted-out – would be an increase of \$562 to \$627 billion. Importantly, although the budget impact of the ACA may have changed, we do not expect CBO to change its projections significantly, as it does not yet have the information to resolve the potential swings in cost.

Background



\$72-80B

Projected federal
budgetary impact of
6 states opting-out

\$567-627B

Potential federal
budgetary exposure
of a 50 state opt-out

On June 28, the Supreme Court delivered its opinion on the lawsuits challenging the Patient Protection and Affordable Care Act (ACA). Notably, the Court found that:

- The Commerce Clause could not be used to compel the purchase of health insurance, but that a tax on the uninsured was within the taxing powers of the government. Thus, being uninsured is not illegal, but is a taxable event.
- The federal government could not withdraw *all* federal Medicaid funding from those states that do not undertake the ACA's Medicaid expansion. In effect, the Medicaid expansion is now voluntary.

In the aftermath of the decisions, speculation arose regarding the impact of the Supreme Court decision on the budgetary outlook of the ACA. The Congressional Budget Office announced it will release its analysis the week of July 23. The revisions are important because each August CBO releases its *Budget and Economic Outlook: An Update*, which summarizes changes to the March budget baseline as a result of changes in economic conditions, the passage of legislation, and other technical factors. The technical factors regularly include administrative decisions, rulemaking and other decisions that alter the budget costs of existing laws. The Supreme Court rulings fall into this category.

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Expectations

The release of the CBO revision to the ACA baseline is unlikely to report dramatic changes to the prior budgetary outlook. That does not mean that the ACA will not end up costing more, or even less. It does mean that the CBO does not yet have the information needed to resolve the considerable uncertainty regarding:

- *Behavioral Responses to Applying the Mandate as a Tax* – The individual mandate decision removes the stigma of illegality from not purchasing health insurance, while leaving the tax unchanged. Depending on the magnitude of this effect, there may be fewer insurance subsidies, more tax payments and a decrease in the net budgetary cost of the ACA.
- *Likelihood of States Opting-Out of the Expansion* – The Medicaid decision enables governors to opt-out of the expansion. Depending on which states opt-out and the policy flexibility afforded to those states, there could be a dramatic difference in the net budgetary cost of the ACA. To see this, consider the two following scenarios we have analyzed.

The ultimate impact will depend upon the particular states that opt out, the sizes of their populations above and below the poverty line, and the generosity of their Medicaid programs, among other things. We consider this in more detail below.

Projected Federal Budgetary Impact of States Opting-Out

To gauge the impact of several states opting out of the Medicaid expansion, we used a micro-simulation model with state-specific health insurance detail. The projected revision of the ACA budgetary outlook was projected assuming that six states opt out of the Medicaid expansion based on public statements by each state governor: Florida¹, Louisiana², Mississippi³, Nebraska⁴, South Carolina⁵ and Texas⁶.

To estimate the federal budget impact of these states not expanding their Medicaid programs we assumed individuals who do not take Medicaid and are eligible for the insurance exchange subsidies (those above 100 percent of the federal poverty level (FPL)) will consider taking them even with a minimal premium required for enrollment. In addition, states that do not offer an exchange will have a federal exchange available to their citizens and the federal exchange will be able to provide subsidies to citizens in these States.

The result of these six states opting out is an increase in federal budget outlays of \$72 to \$80 billion dollars between 2014 and 2021. This reflects a drop in Medicaid coverage of 4.4 million individuals in 2014 compared to the mandatory Medicaid expansion prior to the Supreme Court ruling. At the same time, there will be a 3.2 million person increase in the number of people taking up private insurance coverage in 2014.

To analyze the maximum potential federal budgetary exposure of the Supreme Court decision, we modeled the impact of all 50 states opting-out of a Medicaid expansion. While

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this is unlikely, it illustrates the taxpayer exposure if federal resources that would finance the Medicaid expansion are instead provided through health insurance exchanges at commercial insurance pricing.

The result of all 50 states opting-out would be an increase in federal budgetary exposure of \$562 to \$627 billion between 2014 and 2021. In this scenario, the population remaining in Medicaid would likely be non-seniors with complex care needs, those living in states where single adults currently receive coverage (*e.g.*, New York State).

Of course, it is possible (if not very likely) that only those states with very generous Medicaid spending per person and large populations below the federal poverty limit will choose to opt out of the Medicaid expansion. If so, the combination of the potentially higher federal taxes and Medicaid savings will reduce the overall budget cost.

Summary

The CBO will release its projection of the ACA budget baseline in the aftermath of the SCOTUS decisions. The federal cost could decrease or increase, and potentially increase substantially. However, we do not expect CBO to change its projections significantly because it does not yet have the information to resolve the potential swings in cost.

¹ Pear, Robert. "Republican Governor of Florida Says State Won't Expand Medicaid," *New York Times*. 2 July 2012.

² Barrow, Bill. "Jindal Takes Stage in GOP Initiative Against Health Law," *New Orleans Times-Picayune*. 2 July 2012

³ Niquette, Mark. Wayne, Alex. "Most Governors Won't Commit to U.S. Medicaid Expansion," *Bloomberg*. 5 July, 2012.

⁴ Wisniewski, Mary. "Nebraska Governor Says State Cannot Afford Medicaid Expansion," *Reuters*. 11 July 2012.

⁵ Dudley, Renee. "Haley Administration 'Opts Out' of Health Care Expansion," *The Post and Courier*. 29 June 2012

⁶ Ramshaw, Emily. "Perry: TX Won't Implement Key Elements of Health Reform." *The Texas Tribune*. 9 July 2012