

The Growing Budget Cost of Insurance Subsidies in the Affordable Care Act

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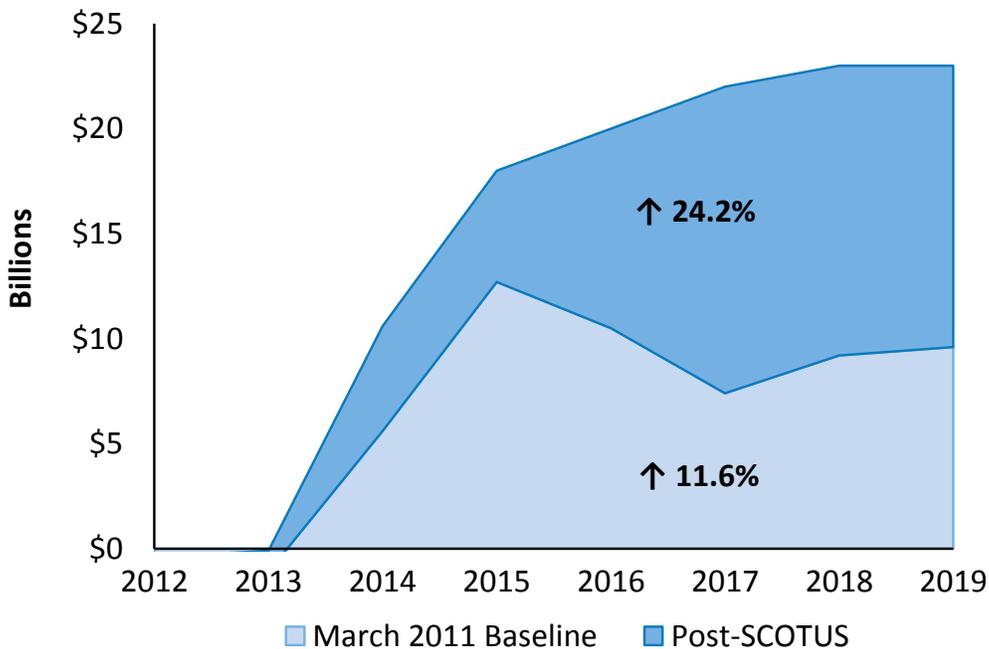
Executive Summary

The ACA health insurance subsidies are the most significant expansion of entitlements since the 1960s. In light of the precarious fiscal outlook for the federal government, its cost is a central concern to policymakers and taxpayers alike.

When the ACA passed in June 2010, the Congressional Budget Office projected the budget cost between fiscal 2012 and fiscal 2019 to be \$462 billion. By June 2012, the cost for these same years had jumped to \$574 billion, an increase of nearly 25 percent. See Summary Table.

Unfortunately, there are grounds to anticipate further growth in the cost of the entitlement due to the risks of faster than expected health care inflation, slow growth in incomes, and the potential for less employer-sponsored insurance in the future.

The Growing Budget Cost of the ACA Insurance Subsidies



Federal Budget Cost of Subsidies	Budget Estimate Between 2012-2019	Difference Between Cost as Passed and:
As Passed March 2010	462.0	-
March 2011 Baseline	515.5	53.5 B (11.6%)
Post-SCOTUS	574.0	112.0 B (24.2%)

Introduction

The Patient Protection and Affordable Care Act (ACA) remains a controversial legislative effort to overhaul health insurance and health care markets in the United States. Its ultimate impact on the federal budget outlook has been among its most disputed features. Central to this dispute are the subsidies for the purchase of insurance on the ACA's exchanges.

The short paper reviews the scale of these subsidies, as well as the evolution of the estimated budget cost of providing these subsidies. I find that the overall the projected costs have risen sharply since the enactment of the ACA, raising the specter of even larger budgets as the program is enacted and matures.

Insurance Subsidies and the ACA

A central feature of the ACA is the subsidies for insurance purchased through the state-based exchanges. When it passed, the Congressional Budget Office (CBO) estimated that the ACA would reduce by 32 million the number of uninsured Americans. Of this, the insurance subsidies would be responsible for increasing coverage by 24 million.¹ Put differently, the insurance subsidies are the central component of the ACA's primary accomplishment: greater health insurance coverage.

To be eligible for the subsidies, a household's income must be between 100 percent and 400 percent of the federal poverty level (FPL) and must purchase a "qualified health plan" through an ACA exchange.² The individuals may not be eligible for other insurance sources like Medicare, Medicaid, or "affordable" (as defined by the ACA) employer-sponsored insurance.

The amount of the subsidy is the difference between the premium for the "benchmark plan" and the households "expected contribution." The latter is specified to be a fraction of the household's income that rises from 2 percent for income equal to the FPL to 9.5 percent at 400 percent of the FPL.³ On the other side of the calculation, the benchmark plan is the "silver" plan with the 2nd lowest cost.

The ACA contains myriad other provisions to permit the subsidy to be advanceable and paid to the insurance company, that re-captures excess subsidies when income is above the expected amount, and so forth.

The Evolving Budget Cost of Subsidies

The ACA subsidies are the most substantial new entitlement program in the United States since the creation of Medicare and Medicaid in 1965. At a time when gross federal debt exceeds Gross Domestic Product, and when projected debt under current policies rises even more dramatically over the next decade, the cost of a major new entitlement expansion is properly a major cause for concern.

As outlined above, the total budget cost of the subsidies will be affected by health care costs (as captured by the premium for a silver plan), the number of individuals between 100 and 400 FPL, the incomes of individuals and households falling in that range, and the availability, take-up and cost of other sources of insurance.

¹ Expanded Medicaid coverage would cover an additional 16 million, while declines in private insurance would offset these gains.

² The covered individuals must be legally present in the United States and not incarcerated.

³ The actual amount a household pays for coverage will be less than the expected contribution if the family chooses a plan that is less expensive than the benchmark plan. The subsidy is also limited to the premium for the plan the family chooses – thereby making sure nobody receives a subsidy greater than what they actually pay for their plan.

Accordingly, as health care costs evolve, income grows, and employers alter their insurance offerings one would expect that the cost of the ACA subsidies will change over time.⁴

Indeed, there has already been a significant upward revision to the expected costs of the program. During the debate and since its passage, the CBO has provided three important benchmarks regarding the cost of the program: (1) the estimated cost as passed in March 2010, (2) the cost in its March 2011 baseline – the first “scoring baseline” after passage of the ACA, and (3) its most recent ACA baseline after the Supreme Court (SCOTUS) ruling in June 2012.⁵

The estimates are summarized in Table 1.⁶ As shown, at the time of passage the ACA subsidies were projected to cost the federal taxpayer \$462 billion between fiscal years 2012 and 2019 (see line 1).⁷ When CBO re-estimated the cost of the entitlement less than a year later, the cost had risen (line 2) to \$515.5 billion. The increase of 11.6 percent (line 4) reflected upward revisions to the costs of between \$5 billion and \$13 billion for every fiscal year 2014-2019.

Just over a year later (line 3) the estimated price tag had jumped to \$574 billion, fully 24.2 percent higher than originally anticipated (line 5). Once again, costs were expected to be higher in every year of operation of the entitlement, this time by as much as \$23 billion dollars.

The lesson is clear: in its brief existence, the ACA entitlement has already increased in cost by nearly 25 percent. Given the continued rise in health care costs in the United States, the stagnation of incomes during the post-2009 recovery, and the large upside risk due to employers no longer providing insurance, there is substantial reason to suspect that the price tag could rise much further yet.

Summary and Conclusions

The ACA health insurance subsidies are the most significant expansion of entitlements since the 1960s. In light of the precarious fiscal outlook for the federal government, its cost is a central concern to policymakers and taxpayers alike. Unfortunately, in the short life of the ACA, the projected costs have been revised upward by nearly 25 percent already. Given the risks of faster than expected health care inflation, slow growth in incomes, and the potential for less employer-sponsored insurance in the future, there is good reason to anticipate that the cost could rise further yet.

⁴ There is substantial concern that employers will respond to the ACA by dropping insurance offerings in the future, swelling the number of those eligible for the ACA subsidies and dramatically increasing the federal cost. See, for example, Holtz-Eakin and Smith: http://americanactionforum.org/sites/default/files/OHC_LabMktsHCR.pdf

⁵ The CBO baseline is the projected federal receipts and outlays under current law. The “scoring” baseline is finalized in March of each year and is used to evaluate the budget cost (or “score”) of legislative proposals in that year.

⁶ In order to highlight the rising cost of the subsidies, Table 1 contains only those years in common to the three estimates.

⁷ The bulk of the costs occur in 2014 and 2019 because subsidies are not paid until then. Costs in 2012 and 2013 represent start-up expenditures for the subsidy program.

Table 1: The Evolving Budget Cost of ACA Subsidies

(Billions of dollars unless otherwise noted)

	2012	2013	2014	2015	2016	2017	2018	2019	2012-2019	Increased Cost (%)
Federal Budget Cost of Subsidies										
(1) As Passed	2.0	3.0	20.0	43.0	77.0	97.0	106.0	114.0	462.0	
(2) March 2011 Baseline	1.6	1.9	25.6	55.7	87.5	104.4	115.2	123.6	515.5	
(3) Post-SCOTUS	2.0	4.0	25.0	61.0	97.0	119.0	129.0	137.0	574.0	
Difference between Cost as Passed and:										
(4) March 2011 Baseline	-0.4	-1.1	5.6	12.7	10.5	7.4	9.2	9.6	53.5	11.6%
(5) Post SCOTUS 2012	0.0	1.0	5.0	18.0	20.0	22.0	23.0	23.0	112.0	24.2%

Sources:

1: <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12033/12-23-selectedhealthcarepublications.pdf>2: <http://www.cbo.gov/sites/default/files/cbofiles/attachments/HealthInsuranceExchanges.pdf>3: <http://www.cbo.gov/sites/default/files/cbofiles/attachments/43472-07-24-2012-CoverageEstimates.pdf>